Venture Capital Bank BSC (c)

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

Commercial registration	:	58222-1 (licensed by the Central Bank of Bahrain as a wholesale Islamic bank)
Office	:	Venture Capital Bank Building 7 and 8 Floors, Diplomatic Area P.O. Box 11755 Manama, Kingdom of Bahrain
Directors	:	Dr. Ghassan Al Sulaiman, Chairman Abdul Fatah Mohd. Rafie Marafei, Vice Chairman Abdullatif M. Janahi, CEO Saleh Mohd. Al Shanfarie Marwan Ahmad Al Ghurair Mohammed Abanumay Nedhal Saleh Al Aujan Ali Al Mousa Ajlan Al Ajlan (w.e.f. 4 March 2009) Sulaiman Al Hudaithi (w.e.f. 4 March 2009) Ibrahim Al Babtain (w.e.f. 4 March 2009) Abdulhadi Al Shahwani (w.e.f. 4 March 2009)
Chief Executive Officer	:	Abdullatif M. Janahi
Auditors	:	KPMG Fakhro

VENTURE CAPITAL BANK BSC (c)

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009

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CHAIRMAN'S REPORT
for the year ended 31 December 2009

In the Name of Allah, the Most Beneficent, the Most Merciful.

Prayers and Peace be upon the Last Apostle and Messenger, Our Prophet Mohammed, His Comrades and Relatives.

On behalf of the Board of Directors, it gives me great pleasure to present the fourth Annual Report of Venture Capital Bank (VCBank) for the year ended 31 December 2009. Notwithstanding the unprecedented economic and financial challenges during 2009, yet the year was characterized by VCBank's stable performance, while our investments and projects continued to achieve positive results and the bank continued to strengthen its institutional capabilities, most notably with the successful completion of its second capital increase

With the continuous difficult economic conditions and operating environment which imposed a myriad of challenges during the year 2009, VCBank relentlessly continued its successful progress toward realization of its vision to become the leading regional Islamic venture capital investment bank. In the light of the negative consequences of the global financial downturn, VCBank continued to embrace a conservative and balanced approach to enter into new investments and focused its attention on its current projects and funds to ensure realization of its objectives both from a financial perspective and its contribution to Bahrain's economic and social development.

The most striking feature which characterizes our performance this year is that it is a collective representation of the efficiency and effectiveness of the solid strategic initiatives undertaken by the bank throughout the years, especially in a period of global and regional economic challenges that have shaken the foundations of many well-established international financial institutions. In spite of these conditions, VCBank's efforts have been successful in enhancing its activities and in preserving the consistency of its performance with flying colours and full merit.

One indicator which illustrates the strength that the bank enjoys is the financial strength of its capital. In the first quarter of 2009, the Bank's AGM approved an increase of its capital from USD 165 million to USD 250 million, an increase of USD 85 million which will enable VCBank to continue its growth plan and enhance its investment and operational capabilities.

During 2009, VCBank managed to realize good and positive financial results in comparison with the prevailing market conditions. Net profits reached to US$ ***11*** million and achieved a return on equity of ***5.4*** per cent for 2009. The Bank has consistently returned net profits since its inception in 2005, which is an excellent performance for a young investment bank, particularly given the turmoil experienced from the start of the current financial crises beginning in September 2008. Furthermore, our balance sheet has grown from a modest base of US$ 66 million at inception to a total balance sheet size of US$ 356 million now; an increase of 5.4 times since inception and of 48% over last year. In addition, off balance sheet fiduciary assets have grown from zero at inception to US$ 672 million as at 31 December 2009. This track record is further corroboration of VCBank's status as the first Islamic investment bank specializing in venture capital investments in small and medium businesses (SMEs) in the MENA region.

CHAIRMAN'S REPORT (continued)
for the year ended 31 December 2009

During 2009, VCBank launched the Royal Maternity Hospital, an innovative project focused in the premium health care segment. We remain focused on the MENA region, targeting sound and yielding private equity opportunities from sound and well-managed small-to medium enterprises (SMEs). The Bank also initiated an innovative Liquidity Program totalling USD 55 million comprising Shari'ah compliant Certificates structured in connection with the exit of its Venture Logistics Properties investments, which has been exited at excellent IRRs (pre-performance fee) of 35% and 27% for the 1st and 2nd tranches respectively. We have also taken the step of recording impairment provisions wherever necessary to protect our investors from the prevailing adverse conditions.

Positive steps are being taken to ensure that the growth and profitability of our Bank is sustained and initiatives implemented to bear fruit in the coming years. Following on from the steps taken in 2008, the Board has continued to press forward a strategic review process, together with the Executive Management and external consultants, to appropriately deal with the critical issues facing us including corporate governance, risk monitoring and mitigation, competitive awareness and the challenges posed by the ongoing financial crisis and market turmoil.

To support our business activities, we have continued to build the institutional capability of the Bank in 2009, including strengthening our framework of corporate governance, risk management and internal controls and enhancing our IT infrastructure.

We have applied a cost reduction policy to reduce administrative and operational expenses, and we followed a prudent and diversified policy of investing across a range of sectors such as medical and industrial services, information technology, shipping and real estate projects both investment and residential.

We should not forget, after more than one year to the crisis, that the world is going through a very slow economic recovery phase, which leaves us with no option but to look forward to the near future with caution and wisdom in terms of investment diversification, and scrutiny of the various opportunities, since our objective is to protect the best interests of the shareholders, and creating an ideal work environment that contribute to the economic development of our community through adding a new dimension to the Islamic investment banking.

Venture Capital investments are of long term nature with exit periods that could reach up to seven years. We are planting today the seeds of future success for our shareholders and investors by capitalizing on the exceptional opportunities that the global financial crisis currently offers in early to mid-stage growth companies with significant market potential that are seeking access to capital and additional technical and operational support to facilitate growth and expansion.

CHAIRMAN'S REPORT (continued)
for the year ended 31 December 2009

We are confident of achieving more positive results in the coming difficult and challenging years and to demonstrate that the Bank's business model actually improves the regional economies through investment in small and medium-sized companies, creating distinct success stories

The Board of Directors is recommending the following appropriations out of the 2009 net profit for the approval of our shareholders:

- US$ 1.1 million representing **10** per cent of the net profit to be transferred to the Statutory Reserve in accordance with the Bahrain Commercial Companies Law.
- US$ 18.9 million representing **8.5** per cent of the issued capital as a stock dividend.

On behalf of the Board of Directors, I would like to express my sincere gratitude and appreciation to His Majesty King Hamad bin Isa Al-Khalifa, King of the Kingdom of Bahrain, and His Royal Highness Prince Khalifa bin Salman Al-Khalifa, the Prime Minister, and His Royal Highness Prince Salman bin Hamad Al-Khalifa, the Crown Prince and Deputy Supreme Commander, for their wise leadership and constant encouragement of the economic sector and the Islamic banking industry in particular. My thanks also goes to the Central Bank of Bahrain, the Ministry of Industry and Commerce and other Government authorities for their continued guidance and support during the year 2009.

I wish also to extend my gratitude and thanks to the shareholders, clients, investors and business partners for their unwavering loyalty and encouragement, as well as to the executive management and all members of VCBank team for their constant efforts and endeavour which enabled the bank to achieve good results in spite of the difficult global markets conditions.

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

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Dr. Ghassan Ahmed Al-Sulaiman
Chairman

15 March 2010

Report of the Shariah Supervisory Board for year ended 31 December 2009

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

The Shari'ah Supervisory Board ("the Board") of Venture Capital Bank ("the Bank") has discussed with the Bank's management the Bank's financial statements for the year ended 31 December 2009 and met with them to review the Bank's activities and investments during the year.

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

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

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

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

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

…………………………	……………………………..
(Signed)	(Signed)
Dr. Abdulsattar Abu-Ghodah	Dr. Issa Zaki

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
Venture Capital Bank BSC (c) 15 March 2010
Manama, Kingdom of Bahrain

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Venture Capital Bank BSC (c) ("the Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statements of income, comprehensive income, changes in equity, cash flows, 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 notes.

Responsibilities of the board of directors for the consolidated financial statements

The board of directors of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The board of directors is also responsible for the Group's undertaking to operate in accordance with Islamic Shari'ah rules and principles.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

***Independent auditor's report to the shareholders** (continued)*
15 March 2010

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2009, and of the result of its operations, cash flows, changes in equity, changes in restricted investment accounts and sources and uses of zakah fund for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'ah rules and principles as determined by the Shari'ah Supervisory Board of the Bank.

In addition, in our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2009 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In addition, in our opinion, the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying report of the chairman and confirm that the information contained therein is consistent with the consolidated financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001, the Central Bank of Bahrain and Financial Institutions Law 2006, the terms of the Bank's license or its memorandum and articles of association having occurred during the year that might have had a material effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2009 USD' 000s

	Note	31 December 2009	31 December 2008
ASSETS			
Cash and balances with banks		14,287	1,093
Placements with financial institutions	3	50,789	31,718
Investment securities	4	129,259	116,068
Investments in associates and joint ventures	5	36,814	17,147
Assets held-for-sale	6	-	22,843
Investment property	7	62,884	8,442
Receivable from investment banking services		9,925	9,316
Short term funding to project companies	8	14,418	9,544
Other assets	9	23,618	22,253
Property and equipment	10	14,007	5,171
Total assets		**356,001**	243,595
LIABILITIES			
Financing payables	11	13,428	288
Payable on acquisition of investment property	7	41,737	-
Employee accruals		5,767	14,535
Other liabilities	12	9,272	3,572
Total liabilities		**70,204**	18,395
EQUITY			
Share capital	13	173,250	165,000
Share premium		13,533	13,533
Funds received towards capital increase	14	64,905	-
Unvested shares of employee share ownership plan		(15,000)	(15,000)
Statutory reserve		10,414	9,314
Investments fair value reserve		1,496	(85)
Employee share ownership plan reserve		4,211	3,073
Retained earnings		32,988	49,352
Total equity attributable to shareholders of the parent		**285,797**	225,187
Non-controlling interest	15	**-**	13
Total equity (page 10)		**285,797**	225,200
Total liabilities and equity		**356,001**	243,595
Restricted investment accounts (page 13)		**16,779**	4,615

The consolidated financial statements, which consist of pages 7 to 59, were approved by the Board of Directors on 15 March 2010 and signed on its behalf by:

Dr. Ghassan Al Sulaiman
Chairman

Abdullatif M. Janahi
Director and Chief Executive Officer

The accompanying notes from 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2009 USD’ 000s

	Note	**31 December 2009**	31 December 2008
Income from investment banking services	16	24,619	67,523
Income from placements with financial institutions	22	594	1,077
Income from financing receivables	22	102	457
Income from investment securities	17	7,005	10,368
Income from sale of investment property		-	1,462
Share of (loss) / profit of associates and joint ventures	5	(2,234)	365
Other income		2,387	795
Total income		**32,473**	82,047
Staff cost	18	9,763	20,481
Travel and business development expenses	19	1,414	2,306
Impairment allowances	20	6,410	6,563
Finance expense	22	28	28
Depreciation	10	1,343	801
Other expenses	21	2,511	3,619
Total expenses		**21,469**	33,798
Profit for the year from continuing operations		**11,004**	48,249
Loss on assets held-for-sale	6	-	(1,208)
Profit for the year		**11,004**	47,041
Attributable to:			
Shareholders of the parent		11,013	47,621
Non-controlling interest		(9)	(580)
		11,004	47,041
Earnings per share (US cents)			
Basic	39	**6.99**	30.24
Diluted	39	**6.85**	28.20

The accompanying notes from 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2009 USD 000's

	31 December 2009	31 December 2008
Profit for the year	11,004	47,041
Other comprehensive income		
Changes in fair value of available-for-sale investments fair value reserve	1,581	(265)
Total comprehensive income for the year	**12,585**	46,776

Attributable to:		
Shareholders of the parent	12,594	47,356
Non-controlling interest	(9)	(580)
	12,585	46,776

The accompanying notes from 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009 USD' 000s

	Attributable to the shareholders of the parent										
2009	**Share capital**	**Share premium**	**Funds received towards capital increase**	**Unvested ESOP shares**	**Statutory reserve**	**Investments fair value reserve**	**ESOP reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
Balance at 1 January 2009	165,000	13,533	-	(15,000)	9,314	(85)	3,073	49,352	225,187	13	**225,200**
Profit for the year	-	-	-	-	-	-	-	11,013	11,013	(9)	**11,004**
Changes in fair value of available-for-sale investments	-	-	-	-	-	1,496	-	-	1,496	-	**1,496**
Transfer to income statement on impairment	-	-	-	-	-	85	-	-	85	-	**85**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**1,581**	**-**	**11,013**	**12,594**	**(9)**	**12,585**
Transfer to statutory reserve	-	-	-	-	1,100	-	-	(1,100)	-	-	-
Dividends declared (2008)	-	-	-	-	-	-	-	(16,293)	(16,293)	-	**(16,293)**
Directors remuneration (2008)	-	-	-	-	-	-	-	(1,534)	(1,534)	-	**(1,534)**
Bonus shares issued (2008)	8,250	-	-	-	-	-	-	(8,250)	-	-	**-**
Capital increase in progress	-	-	64,905	-	-	-	-		64,905	-	**64,905**
Zakah contribution (2008)	-	-	-	-	-	-	-	(191)	(191)	-	**(191)**
ESOP plan vesting charge	-	-	-	-	-	-	1,138	-	1,138	-	**1,138**
Acquisition of non-controlling interest (note 15)	-	-	-	-	-	-	-	(9)	(9)	(4)	**(13)**
Balance at 31 December 2009	**173,250**	**13,533**	**64,905**	**(15,000)**	**10,414**	**1,496**	**4,211**	**32,988**	**285,797**	**-**	**285,797**

The accompanying notes from 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009 *(continued)* USD' 000s

	Attributable to the shareholders of the parent									
2008	Share capital	Share premium	Unvested ESOP shares	Statutory reserve	Investments fair value reserve	ESOP reserve	Retained earnings	Total	Non-controlling interest	Total
Balance at 1 January 2008	165,000	13,533	(15,000)	4,552	180	1,800	31,887	201,952	663	202,615
Profit for the year	-	-	-	-	-	-	47,621	47,621	(580)	47,041
Fair value changes	-	-	-	-	(265)	-	-	(265)	-	(265)
Total comprehensive income	-	-	-	-	(265)	-	47,621	47,356	(580)	46,776
Transfer to statutory reserve	-	-	-	4,762	-	-	(4,762)	-	-	-
Dividends declared (2008)	-	-	-	-	-	-	(23,775)	(23,775)	-	(23,775)
Directors remuneration (2008)	-	-	-	-	-	-	(1,310)	(1,310)	-	(1,310)
ESOP plan vesting charge	-	-	-	-	-	1,273	-	1,273	-	1,273
Zakah contribution (2008)	-	-	-	-	-	-	(309)	(309)	-	(309)
Minority interest attributable to asset held-for-sale (note 6)	-	-	-	-	-	-	-	-	3,858	3,858
Deconsolidation of minority on partial sale of stake in a subsidiary	-	-	-	-	-	-	-	-	(3,928)	(3,928)
Balance at 31 December 2008	165,000	13,533	(15,000)	9,314	(85)	3,073	49,352	225,187	13	225,200

The accompanying notes from 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2009 USD' 000s

	31 December 2009	31 December 2008
OPERATING ACTIVITIES		
Murabaha profits received	594	1,077
Dividends received	486	1,158
Other receipts	897	510
Placement, management and advisory fees received	1,237	1,600
Investment banking fees received	22,537	92,892
Project costs recovered	8,234	-
Acquisition of assets held-for-sale	(712)	(22,516)
Purchase of trading securities	(3,555)	(62,553)
Sale of trading securities	3,811	10,332
Advances to acquire investments	(19,908)	(13,446)
Directors remuneration paid	(1,534)	(1,310)
Short term funding to project companies	(6,125)	-
Payments for staff cost	(19,038)	(13,473)
Payments for other expenses	(5,288)	(5,573)
Cash flows from operating activities	**(18,364)**	(11,302)
INVESTING ACTIVITIES		
Purchase of property and equipment	(293)	(2,845)
Cash flows from investing activities	**(293)**	(2,845)
FINANCING ACTIVITIES		
Funds received towards capital increase	57,099	-
Financing payables, net	(151)	(151)
Dividends paid	(5,836)	(22,575)
Zakah paid	(190)	(309)
Cash flows from financing activities	**50,922**	(23,035)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**32,265**	(37,182)
Cash and cash equivalents at beginning of the year	32,811	69,993
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**65,076**	32,811
Cash and cash equivalents include:		
Cash and balances with banks	14,287	1,093
Placements with financial institutions	50,789	31,718
	65,076	32,811

The accompanying notes from 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2009 USD' 000s

2009	**At 1 January 2009**	**Investors funds received**	**Investors funds repaid**	**AFS revaluation adjustments**	**Gross income**	**Dividend paid**	**Administration expenses**	**Bank's fees as agent**	**At 31 December 2009**
The GCC Pre-IPO Fund	4,615	-	(146)	(127)	129	-	-	-	**4,471**
VC Bank investment projects Mudarabah	-	12,000	-	-	331	-	-	(23)	**12,308**
	4,615	**12,000**	**(146)**	**(127)**	**460**	**-**	**-**	**(23)**	**16,779**
Representing:									
Investments in equities									4,276
Funds in short term murabaha									12,503
Total									**16,779**

2008	At 1 January 2008	Investors funds received	Investors funds repaid	AFS revaluation adjustments	Gross income	Dividend paid	Administration expenses	Bank's fees as agent	At 31 December 2008
The GCC Pre-IPO Fund	5,110	-	(299)	(226)	30	-	-	-	4,615
Representing:									
Investments in equities									4,423
Funds in short term murabaha									192
									4,615

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 have specified amounts and have nominated the specific equities to participate in from a pool of GCC Pre-IPO equities and receive all returns less the Bank's fee of 20% over a 10% simple return.

The VC Bank Investment Projects Mudarabah (the "Mudarabah") provides liquidity financing to selected investment projects from the portfolio of projects promoted by the Bank. The Mudarabah earns a return of 7% less the Bank's share of profit as Mudarib of 7%, which shall be distributed to investors on maturity of the account.

The accompanying notes from 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH FUND
for the year ended 31 December 2009 USD' 000s

	2009	2008
Sources of zakah fund		
Contributions by the Bank	191	309
Total sources	**191**	309
Uses of zakah fund		
Contributions to charitable organisations	191	309
Total uses	**191**	309
Undistributed zakah fund at 31 December	-	-

The accompanying notes from 1 to 42 form an integral part of these consolidated financial statements

1 STATUS AND PRINCIPAL ACTIVITY

Venture Capital Bank BSC (c) ("the Bank") was incorporated in the Kingdom of Bahrain on 26 September 2005 as a closed shareholding company under commercial registration (CR) number 58222 issued by the Ministry of Industry and Commerce. The Bank is licensed as a wholesale Islamic bank by the Central Bank of Bahrain ("CBB") and is subject to the regulations and supervision of the CBB.

The principal activities of the Bank comprise venture capital, real estate and private equity investment transactions and related investment advisory services. The Bank conducts all its activities in compliance with Islamic Shari'ah under the guidance and supervision of the Bank's Shari'ah Supervisory Board, and in compliance with applicable laws and regulations.

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary companies (collectively, "the Group").

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been applied consistently to all periods presented in the consolidated financial statements, and have been consistently applied by Group entities, except for the changes resulting from amendments made to accounting standards (refer note 2(c)).

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with both the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, International Financial Reporting Standards ("IFRS") and requirements of Bahrain Commercial Companies Law 2001.

(b) Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 32.

2 Significant accounting policies (continued)

(c) Standards, amendments and interpretations effective on or after 1 January 2009

The following standards, amendments and interpretations, which became effective in 2009, are relevant to the Group:

IAS 1 (revised), 'Presentation of financial statements'

During the year, the Group adopted Revised IAS 1 "*Presentation of Financial Statements*" on its required application date of 1 January 2009. Revised IAS 1 introduces the term "total comprehensive income", which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either 1) a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or 2) in an income statement and a separate statement of comprehensive income. The Group has opted to present separate statements – an income statement and a separate statement of comprehensive income.

The adoption of revised IAS 1 impacted the type and amount of disclosures made in the consolidated financial statements, but had no impact on the reported profits or the financial position of the Bank. Accordingly, a new primary statement of comprehensive income has been included in the consolidated financial statements and in accordance with the transitional requirements of the standard; the Bank has provided full comparative information.

IFRS 2, 'Share-based payment' – Vesting conditions and cancellations

The changes pertain mainly to the definition of vesting conditions and the regulations for the cancellation of a plan by a party other than the company. These changes clarify that vesting conditions are solely service and performance conditions. As a result of the amended definition of vesting conditions, non-vesting conditions should now be considered when estimating the fair value of the equity instrument granted. In addition, the standard describes the posting type if the vesting conditions and non-vesting conditions are not fulfilled. These amendments require retrospective application. Based on the Group's assessment, the impact of the amendment to IFRS 2 is not material to the consolidated financial statements.

Amendments to IFRS 7, 'Financial Instruments: Disclosures'

The amendment to IFRS 7 requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Group. These additional disclosures have been presented for the current financial reporting period and in line with the transitional provisions, comparative information has not been provided.

2 Significant accounting policies (continued)

(c) Standards, amendments and interpretations effective on or after 1 January 2009 (continued)

IFRS 8, 'Operating segments'

IFRS 8 "Operating Segments" is applicable for periods beginning on or after 1 January 2009. This standard introduces the "management approach" to segment reporting which requires a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Bank's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. 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.

Improvements to IFRS

'Improvements to IFRS' issued in May 2008 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments effective for annual periods beginning on or after 1 January 2009 have been considered by the Group and there have been no material changes to accounting policies as a result of these amendments.

(d) Basis of consolidation

(i) Subsidiaries

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

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 35.

2 Significant accounting policies (continued)

(d) Basis of consolidation (continued)

(ii) Business combination

Accounting for acquisition of subsidiaries is governed under IFRS 3 '*Business combinations'*, Accounting for business combinations under IFRS 3 only applies if it is considered that a business has been acquired. For acquisitions meeting the definition of a business, the acquisition method of accounting is used. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Any goodwill arising from initial consolidation is tested for impairment at least once a year and whenever events or changes in circumstances indicate the need for impairment. If the cost of acquisition is less than the fair value of the Group's share of the net assets acquired, the difference is recognised directly in the consolidated income statement. For acquisitions not meeting the definition of a business, the Group allocates the cost between the individual identifiable assets and liabilities. Financial assets and liabilities are recognised at their fair value at the acquisition date as measured in accordance with IAS 39 '*Financial instruments: Recognition and measurement'* and the remaining balance of the cost of purchasing the assets and liabilities is allocated to other individual non-financial assets and liabilities based on their relative fair values at the acquisition date.

(iii) Non-controlling interest

Interests in the equity of subsidiaries not attributable to the parent are reported in consolidated equity as non-controlling interest. Non-controlling interest is recognised initially at their share of the identifiable assets, liabilities and contingent liabilities recognised in the purchase accounting, excluding goodwill. Profits or losses and changes in other comprehensive income attributable to non-controlling interests are reported separately in the consolidated income statement and statement of comprehensive income.

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iv) Associates and joint ventures

Associates are those enterprises in which the Group holds, directly or indirectly, between 20% - 50% of the voting power and exercises significant influence, but not control, over the financial and operating policies. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

On initial recognition of an investment in an associate or a joint venture, the Group makes an accounting policy choice as to whether the associate or the joint venture shall be equity accounted or designated as at fair value through profit or loss.

The Group, being a venture capital organisation, designates certain of its investments in associates and joint ventures, as allowed by IAS 28 '*Investments in Associates'* and IAS 31 "*Interests in Joint Ventures*", respectively as 'investments designated at fair value through profit or loss' in accordance with IAS 39 [refer note 2(g) (i)].

2 Significant accounting policies (continued)

(d) Basis of consolidation (continued)

If the equity accounting method is chosen for an associate or a joint venture, the investments are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. When the Group's share of losses exceeds its interest in an associate or a joint venture, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the joint venture.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions with subsidiaries are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity accounted associates and joint ventures are eliminated to the extent of the Group's interest in the investees. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries and associates and joint ventures that are equity accounted have been changed where necessary to ensure consistency with the policies adopted by the Group.

(e) 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 balance

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

(iii) Group companies

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

2 Significant accounting policies (continued)

(f) 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 financing liabilities and other payables. All financial assets (except investment securities) and financial liabilities are recognised on the date at which they are originated. Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument.

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

The Group derecognises a financial asset when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership. The Group writes off certain financial assets when they are determined uncollectible. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(ii) Classification of financial assets and liabilities

The Group allocates financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Except for investment securities (refer note 2 (g)), 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 analyses and other valuation models with accepted economic methodologies for pricing financial instruments.

Amortised cost

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

2 Significant accounting policies (continued)

(g) Investment securities

The Group classifies its investment securities, excluding investment in subsidiaries and equity accounted associates and joint ventures (refer note 2 (d) (iv)), in the following categories: investment at fair value through profits 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 by the Group as at fair value through profit or loss.

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 at fair value through profit or loss at inception only when it is managed, evaluated and reported on internally on a fair value basis. These include certain private equity investments [including investments in certain associates and joint ventures - refer note 2 (d) (iv)].

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 Bank 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 profit or loss 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 income statement in the period in which they arise. Gains and losses arising from a change in the fair value of available-for-sale investments are recognised in the consolidated statement of comprehensive income and presented in a separate fair value reserve within equity. When the 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 income statement through the statement of comprehensive income.

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

2 Significant accounting policies (continued)

(g) Investment securities (continued)

(i) Fair value measurement principles

Fair value for quoted investments is their market bid price. For other unquoted investments, fair value is determined either by reference to the price of the most recent transactions in the security or based on recognised internal valuation models.

For certain investments, the Group uses proprietary models, which usually are developed from recognised valuation models for fair valuation. 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.

(ii) 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 at least once 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 held-to-maturity securities carried at amortised cost, impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement.

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

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.

(h) Other financial assets carried at amortised cost

All other financial assets, except certain investment securities, are classified as loans and receivables and are carried at amortised cost less impairment allowances. Impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses, if any, are recognised in the income statement and reflected in an allowance account against the respective financial asset.

2 Significant accounting policies (continued)

(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 consolidated 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 20 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 size of the property measured in square meter.

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 income statement during the financial period in which they are incurred.

(j) Cash and cash equivalents

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

(k) Assets held-for-sale

(i) Classification

The Group classifies non-current assets or disposal groups as held for sale if its carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use within twelve months. A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. A subsidiary acquired exclusively with a view to resale is classified as disposal group held for sale and income and expense from its operations are presented as part of discontinued operation in accordance with IFRS 5 "*Non-current Assets Held for Sale and Discontinued Operations*".

If the criteria for classification as held for sale are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale and shall measure the asset at the lower of its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale and its recoverable amount at the date of the subsequent decision not to sell. The Group continues to classify non-current assets or disposal groups as held for sale where events or circumstances beyond the control of the Bank extend the period to complete the sale beyond twelve months and the Group remains committed to its plan to sell.

2 Significant accounting policies (continued)

(k) Assets-held-for sale (continued)

(ii) Measurement

Non-current assets or disposal groups classified as held for sale, other than financial instruments measured under IAS 39, are measured at the lower of its carrying amount and fair value less costs to sell. Financial instruments that are non-current assets and 'held-for-sale' are measured in accordance with their initial classification under IAS 39.

(l) 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 their estimated useful lives ranging from 4 to 20 years. Residual values and useful lives are reviewed, and adjusted if appropriate, at the date of each statement of financial position.

(m) Impairment of non-financial assets

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

(n) Financing liabilities

Financing liabilities comprise facilities from financial institutions for acquisition of equipment and investment activities of the Group. 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 income statement on a time-apportioned basis at the effective profit rate.

(o) 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 (refer note 36).

(p) Dividends and Board remuneration

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

2 Significant accounting policies (continued)

(q) Share capital and statutory reserve

Ordinary shares 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 income statement 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.

(r) Revenue recognition

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.

Investment advisory and structuring income is recognised when the service is provided and income is earned. This is usually when the Bank has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Bank. Significant acts in relation to a transaction are determined based on the terms agreed in the private placement memorandum/ contracts for each transaction.

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

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

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

(s) Operating leases

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

(t) Restricted investment accounts

Restricted investment accounts represents assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Group as an investment manager based on either a mudaraba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investment account holders. Assets that are held in such capacity are not included as assets of the Bank in the consolidated financial statements.

2 Significant accounting policies (continued)

(u) Employee benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Post employment benefits

Pensions and other social benefits for Bahraini employees are covered by the General Organisation for Social Insurance scheme, which is a “defined contribution scheme” in nature under IAS 19 ‘*Employee Benefits’*, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Bank are recognised as an expense in income statement when they are due.

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 income statement.

(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 upon completion of a 5 year lock-in period. The cost to the Group, representing the fair value of the units offered, is determined by an independent firm of accountants using the Black-Scholes model, and is recognised as an expense in the consolidated income statement over the vesting period of 5 years, with corresponding increase in the ESOP reserve recognised as a separate component of the consolidated statement of changes in equity. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service conditions at the vesting date.

(v) 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.

(w) 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.

3 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Gross short-term placements	50,827	31,726
Less: Deferred profits	(38)	(8)
	50,789	31,718

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

4 INVESTMENT SECURITIES

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Investments at fair value through profit or loss		
- Quoted	1,351	4,646
- Unquoted	75,011	69,820
Available-for-sale investments		
- Quoted	6,074	5,543
- Unquoted	46,823	36,059
	129,259	116,068

(i) Investments at fair value through profit or loss

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Held for trading - listed equities	1,351	4,646
Designated at fair value though profit or loss:		
- Joint ventures – unquoted	28,671	33,172
- Equity securities – unquoted	33,383	29,092
- Funds – unquoted	12,957	7,556
	76,362	**74,466**

During the year, the Bank has recognised net fair value loss amounting to USD 670 thousand (2008: 11,156 thousand) on re-measurement of investments designated at fair value through profit or loss. Of the total fair value changes recognised during the year, gains of USD 3,830 thousand (2008: USD 3,330) was determined based on recent transaction prices in the shares of the investee companies and a loss of USD 4,500 thousand (2008: gain of USD 7,826 thousand) determined using valuation techniques.

4 Investment securities (continued)

Summarised financial information for investment in joint ventures and associates at fair value through profit or loss not adjusted for the percentage ownership held by the Group:

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Total assets	104,622	118,676
Total liabilities	56,544	50,757
Total revenues	(5,371)	10,398
Total net (loss) / profit for the year	(10,322)	5,037

(ii) Available-for-sale investment securities

Investments with a carrying value of USD 46,823 thousand (2008: USD 36,059 thousand) in unquoted equities are stated at cost less impairment in the absence of a reliable measure of fair value. The Bank has insignificant shareholding in 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.

Movement in impairment allowance on unquoted equity securities is as follows:

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
At 1 January	-	-
Addition during the year	2,950	-
At 31 December	**2,950**	-

5 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Associates	14,721	16,447
Joint ventures	22,093	700
	36,814	17,147

5 Investment in associates and joint ventures (continued)

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

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
At 1 January	17,147	3,034
Acquisitions / additional investments during the year	459	8,613
Reclassification from asset held-for-sale (note 6)	22,843	-
Consolidation of a joint venture upon full acquisition (note 23)	(1,358)	-
Reclassified on partial sale of asset held-for-sale (note 6)	-	6,035
Distribution during year	-	(900)
Reclassification to available-for-sale investment on dilution	(43)	-
Share of (losses) / profits of associates and joint ventures, net	(2,234)	365
	36,814	17,147

Summarised financial information for investment in joint ventures and associates equity accounted not adjusted for the percentage ownership of the Group:

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Total assets	100,840	54,762
Total liabilities	22,481	16,444
Total revenues	460	22
Total net profit for the year	6,469	(966)

6 ASSETS HELD-FOR-SALE

During the previous year, in its normal course of business, the Bank acquired 50% stake in a joint venture company for USD 22,843 thousand and was in the process of structuring and placing it with investors. Accordingly, the investment was classified as an asset held-for-sale. However, during the current year, due to changes in the plan to sell, the investment has been reclassified as an investment in associate – equity accounted.

During 2008, the Bank had made an additional investment in an associate company designated at fair value through profit or loss with an intention to hold for a short period as the intention was to sell down part of its stake immediately. The additional investment resulted in the Group having a controlling stake of 51.9% for a period of 9 months. Accordingly, the assets and liabilities of the subsidiary that were consolidated during the previous year were classified as 'held-for-sale' and income and expense from its operations were presented as part of discontinued operation in accordance with IFRS 5 "*Non-current Assets Held for Sale and Discontinued Operations*". Prior to 31 December 2008, the Group executed the sale transaction resulting in reduction in its stake below 50% thus leading to loss of control.

7 INVESTMENT PROPERTY

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Land carried at cost	9,130	8,442
Building	53,754	-
	62,884	8,442

Investment property includes land and building in Bahrain held for earning rental and capital appreciation purposes. The fair value of the land as at 31 December 2009 is approximately USD 15 million (2008: USD 30 million), and fair value of the building is USD 63.66 million determined based on a valuation by an independent external valuer.

On 24 December 2009, the Group acquired the VC Bank building through acquisition of 100% of the share capital of the Gulf Projects Company WLL. The VC Bank building is a multi storey office cum car park facility in the Diplomatic Area in Manama, Kingdom of Bahrain. The acquisition has been accounted as purchase of an asset. The acquisition resulted in the recognition of the building and associated assets and liabilities in the consolidated financial statements of the Group on that date. The portion of the building occupied by the Group has been classified as owner occupied property (refer note 10) and the balance has been classified under investment property.

The asset acquisition resulted in assuming financing liabilities of USD 13.26 million payable to a financial institution (refer note 11). The purchase consideration payable towards acquisition of the building amounting to USD 41.74 million is outstanding as at 31 December 2009 (refer note 24).

8 SHORT TERM FUNDING TO PROJECT COMPANIES

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Gross funding	15,568	9,544
Less: Impairment allowance	(1,150)	-
	14,418	9,544

These receivables include temporary short-term funding provided to projects and investments promoted by the Bank. The financing facilities are generally interest-free 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.

9 OTHER ASSETS

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Receivable from sale of investments	-	3,655
Advances to acquire investments	22,633	17,451
Project costs recoverable	1,798	1,195
Other receivables	115	701
Less: Impairment allowance	(928)	(749)
	23,618	22,253

Movement in impairment allowance:

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
At 1 January	749	576
Addition during the year	179	173
At 31 December	**928**	749

10 PROPERTY AND EQUIPMENT

(USD'000)

	Building	**Computer and equipment**	**Furniture and fixtures**	**Motor vehicles**	**2009 Total**	2008 Total
Cost						
At 1 January	-	971	4,771	534	**6,276**	3,431
Additions	9,914	219	49	-	**10,182**	2,845
Disposal	-	-	(3)	-	**(3)**	-
At 31 December	9,914	1,190	4,817	534	**16,455**	6,276
Depreciation						
At 1 January	-	249	630	226	**1,105**	304
Charge for the year	-	278	932	133	**1,343**	801
At 31 December	**-**	**527**	**1,562**	**359**	**2,448**	1,105
Net book value At 31 December	9,914	663	3,255	175	**14,007**	5,171

During the year, the Group acquired the VC Bank building (refer note 7) and the owner occupied floors of the building has been classified under property and equipment within the meaning of IAS 16.

11 FINANCING LIABILITY

This includes murabaha financing facility from a financial institution which bears a profit rate of 5.85% annually and matures in September 2011 and Ijarah financing of USD 13.26 million included as a result of an asset acquisition (refer note 7). The Ijarah financing is repayable in July 2011 and carries a profit rate of 8% per annum, payable quarterly in arrears.

12 OTHER LIABILITIES

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Account payables	2,782	512
Payable towards acquisition of investment securities	3,613	-
Provisions and accruals	1,594	3,060
Dividends payable	1,283	-
	9,272	3,572

13 SHARE CAPITAL

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Authorised: 500,000,000 ordinary shares of USD 1 each	**500,000**	500,000
Issued and fully paid up: 173,250,000 shares of USD 1 each (2008: 165,000,000 shares of USD 1 each)	**173,250**	165,000

At the annual general meeting held on 4 March 2009, the shareholders approved:

- Issue of bonus shares of 5% on shares outstanding as at 31 December 2008 resulting in increase of paid-up capital from USD 165 million to USD 173.25 million;
- Cash dividends of 15% (USD 0.15 per share);
- Board remuneration of USD 1,310 thousand; and
- Appropriation to statutory reserve of USD 3,230 thousand.

14 FUNDS RECEIVED TOWARDS CAPITAL INCREASE

The shareholders in their extra-ordinary general meeting held on 4 March 2009 resolved to increase the Bank's paid up capital by USD 87.75 million through rights issue to existing shareholders of USD 60.75 million at a price of USD 1.20 per share and issue of shares to new investors of USD 27 million at a price of USD 1.60 per share. Further, the shareholders also approved allocation of additional 9.25 million shares at par towards the Bank's employee share ownership plan. The Bank collected subscriptions of USD 64.91 million up to 31 December 2009, and the Board of Directors has decided to close the capital increase at this amount. The legal process for the registration and issue of the new shares is currently in progress.

15 ACQUISITION OF NON-CONTROLLING INTEREST

On 6 December 2009, the Group acquired the remaining 10 percent in the Lounge Business Service Offices Limited ("the Lounge") from the non-controlling interest making it a fully owned subsidiary of the Bank. The acquisition was made at the book value at the beginning of the year. The loss on the date of acquisition has been recognised in equity.

16 INCOME FROM INVESTMENT BANKING SERVICES

	2009 (USD'000)	2008 (USD'000)
Investment advisory and structuring income	21,433	63,504
Investment management and advisory fee	3,096	2,309
Placement and arrangement fee	90	1,710
	24,619	67,523

17 INCOME FROM INVESTMENT SECURITIES

	2009 (USD'000)	2008 (USD'000)
Trading securities	642	(3,611)
Investments designated at fair value through profit or loss	2,301	12,308
Held-to-maturity	-	127
Available-for-sale investments	4,062	1,349
Other	-	195
	7,005	10,368

Details of income by nature are as follows:

USD'000

2009	**Trading**	**Designated at fair value**	**HTM**	**AFS**	**Others**	**Total 2009**
Fair value gains	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**

USD'000

2008	Trading	Designated at fair value	HTM	AFS	Others	Total 2008
Fair value (losses) / gain	(3,774)	11,156	-	-	-	7,382
Profit on sale	31	918	-	557	195	1,701
Dividends	132	234	-	792	-	1,158
Profit income	-	-	127	-	-	127
	(3,611)	12,308	127	1,349	195	10,368

18 STAFF COST

	2009 (USD'000)	2008 (USD'000)
Salaries and benefits	8,974	19,757
Social insurance expenses	778	719
Other staff expenses	11	5
	9,763	20,481

19 TRAVEL AND BUSINESS DEVELOPMENT EXPENSES

	2009 (USD'000)	2008 (USD'000)
Travel and accommodation	906	1,637
Legal and professional	508	669
	1,414	2,306

20 IMPAIRMENT ALLOWANCES

	2009 (USD'000)	2008 (USD'000)
Available-for-sale investments	4,001	6,390
Advances to acquire investments	-	173
Investment banking fee receivable	1,080	-
Short term funding to project companies	1,150	-
Other assets	179	-
	6,410	6,563

21 OTHER EXPENSES

	2009 (USD'000)	2008 (USD'000)
Rent and office expenses	1,896	2,190
Publicity, conferences and promotion	203	835
Board and Shari'ah expenses	356	536
Other costs	56	58
	2,511	3,619

22 TOTAL FINANCE INCOME AND EXPENSE

	2009 (USD'000)	2008 (USD'000)
FINANCE INCOME		
Income from financing receivable	-	457
Short term funding to project companies	102	-
Income from placements with financial institutions	594	1,077
Income from held-to-maturity Sukuk	-	127
	696	1,661
FINANCE EXPENSE		
Financing expense	(28)	(28)
NET FINANCE INCOME	**668**	1,633

23 BUSINESS COMBINATION

The Group owned 50% of investment in Mena SME Fund Manager Limited, an entity set up to act as the General Partner (GP) of Mena SME Fund LP (the Fund), a fund which invests in private equity projects in the MENA region. The Group previously had an arrangement to jointly manage the Fund with another private equity fund manager. The investment was being equity accounted and classified as investment in a joint venture.

On 22 December 2009, the Group acquired the balance 50% of the share capital of Mena SME Fund Manager Limited under a broader asset purchase arrangement from the other shareholder. The acquisition resulted in the Group being assigned the current and future beneficial interest in the fee income receivable from managing the Fund. This resulted in recognition of USD 1,560 thousand of excess of fair value of net assets over the consideration paid, which has been recognised in the income statement under 'other income'.

24 SUBSEQUENT EVENTS

Subsequent to the year end, the Bank initiated a short term liquidity program to raise USD 55 million to finance the exit of investors of Gulf Projects Company WLL and acquisition of the VC Bank building (refer note 7). In order to facilitate the transaction the Bank incorporated Liquidity FinCo Limited (the "FinCo"), a Cayman Island company. The FinCo will issue short term deposit receipts with maturities ranging from 3 months to 12 months, which yield a fixed profit rate of 3% to 6.5% respectively over the maturity period. The payments under the liquidity program will be supported by the rental cash flows generated from the VC Bank building. The deposits shall be secured against the VC Bank building.

As of date of these consolidated financial statements, the FinCo has received binding commitments from investors for USD 55 million to participate in the liquidity program. The Bank is also planning to engage participation of other financial institutions and liquidity providers to support timely and periodic redemption of the short-term deposits as per the terms of the liquidity program. This is expected to substantially reduce the Bank's exposure to credit and liquidity risk arising from this liquidity program.

25 EMPLOYEE SHARE OWNERSHIP PLAN

On 1 October 2008, the Group set up an employee's share ownership plan (ESOP) under which employees are offered units in the ESOP for purchase at the book value of the equity shares of the Bank determined as on the grant date. Each unit represents the rights to the benefits of one equity share in the Bank and the purchase price of these units is to be paid in instalments over a 5 year vesting period upon which the employee will be allotted shares underlying these units. The units carry the rights to the full value of the underlying shares including dividends conditional on completion of the 5 year service period and settlement of the cost of the units. The cost to the Bank, representing the fair value of the units offered 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 income statement over the vesting period with corresponding increase in the ESOP reserve recognised as a separate component of the consolidated statement of changes in equity.

The shareholders have authorised issue of up to 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 benefits 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 2009, 11.38 million, (2008: 14.63 million units) units which had been granted under the terms of the ESOP were outstanding. During the year 2009, the Bank did not grant any new units to its employees. The vesting charge for the current year net of forfeiture amounted to USD 1,138 thousand (2008: USD 1,273 thousand).

26 RELATED PARTY TRANSACTIONS

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

A significant portion of the Group's income from 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 by and large third parties and are the economic beneficiaries of the underlying investments.

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

26 Related party transactions (continued)

2009	Associates and joint ventures	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Assets					
Cash and 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 ventures accounted for using the equity method	(2,234)	-	-	-	**(2,234)**
Other income	626	-	-	-	**626**
Expenses (excluding compensation for key management personnel)					
Impairment allowance	400	-	-	-	**400**
Commitments and contingencies	-	-	-	-	**-**
Restricted investment accounts	12,308	-	-	-	**12,308**

26 Related party transactions (continued)

2008	Associates and joint ventures	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Assets					
Cash and balances with banks	-	-	85	-	85
Placements with financial institutions	-	-	351	-	351
Investment securities	-	-	-	61,642	61,642
Investments in associates and joint ventures	35,718	-	18,936	-	54,654
Assets held-for-sale	22,843	-	-	-	22,843
Receivable from investment banking services	295	-	4,647	3,726	8,668
Short term funding to project companies	103	-	570	5,720	6,393
Other assets	-	-	-	16,364	16,364
Liabilities					
Employee accruals	-	1,455	-	-	1,455
Income					
Income from investment banking services	680	-	-	-	680
Income from investment securities	7,826	-	-	-	7,826
Share of profit/ (loss) of associates and joint ventures accounted for using the equity method	365	-	-	-	365
Other income	484	-	-	-	484
Commitments and contingencies	-	-	-	-	-
Restricted investment accounts	-	-	-	-	-

26 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 end of the year were:

Categories*	Number of Shares	Number of Directors
Less than 1%	3,574,167	3
1% up to less than 5%	6,628,539	2

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

Details of material contracts involving directors' include:

	2009 (USD'000)	2008 (USD'000)
Directors' participation in investments promoted by the Group	13,975	13,056

The key management personnel compensation is as follows:

	2009 (USD'000)	2008 (USD'000)
Board remuneration	-	1,534
Board member fees	142	139
Share-based payments	549	831
Salaries and other short-term benefits	2,262	9,605

27 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 2009 is US cents 0.1807 for every share held (31 December 2008: US cents 0.5360 for every share held). As per the Shari'ah Supervisory Board, the capital increase advance amount has been excluded from the determination of Zakah as it was only received towards the end of the year 2009. Investors participating in the capital increase must note this and be aware that the responsibility of calculating and paying the zakah due on them is their sole responsibility.

28 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.

29 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.

30 SOCIAL RESPONSIBILITY

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

31 PROPOSED APPROPRIATIONS

The Board of Directors of the Bank propose the following appropriations, subject to the approval of the shareholders at the annual general meeting:

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Proposed dividend – cash	-	16,500
Proposed dividend – bonus shares	18,977	8,250
Directors' remuneration	-	1,534
Zakah	79	191

32 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING ESTIMATES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Judgements

(i) Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments designated at fair value through profit or loss, held-to-maturity or available-for-sale investment securities. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification [refer note 2 (g)].

Further, the Group classifies non-current assets or disposal groups as 'held for sale' if it's carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use. In addition, the sale is expected to be completed within one year from the date of classification. The expected time of completion of sale and management's plan to sell is based on management assumptions in relation to the condition of the asset and its current performance and requires judgment. There is no certainty on the execution and completion of the sale transaction and any changes in the plan to sell may cause the classification of the disposal group to be changed and consequently the basis of measurement, presentation and disclosure in the consolidated financial statements.

32 Critical accounting estimates and judgements in applying accounting estimates (continued)

(ii) Special purpose entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides nominee, corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

Key sources of estimation uncertainty

(i) Fair value of investments

The Group determines the fair values of unquoted investments amounting to USD 75,011 thousand (2008: USD 69,820 thousand) by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, these are reviewed by personnel independent of the department that formulated the valuation techniques. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies/funds. These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments.

Details of estimates and related sensitivity analysis are disclosed in note 38 (b).

(ii) Impairment on available-for-sale investments

The Group determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment and is assessed for each investment separately. In case of quoted equity securities, the Group considers a decline of more than 20% in the fair value below cost to be significant and considers a decline below cost which persists for more than 6 months as prolonged.

Where fair values are not readily available and the investments are carried at cost, the recoverable amount of such investment is estimated to test for impairment. A significant portion of the Group's available-for-sale investments comprise of investments in long-term real estate development projects. In making a judgment of impairment, the Group evaluates among other factors, evidence of 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.

32 Critical accounting estimates and judgements in applying accounting estimates (continued)

(iii) Impairment of short-term funding to project companies

Each exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management evaluates among other factors, 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. Each asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department and approved by the Board of Directors.

33 MATURITY PROFILE

The table below shows the maturity profile of the Group's financial assets and liabilities and unrecognised commitments on the basis of their expected realisation/ payment and the Group's contractual maturity and amount of cash flows on these instruments may vary significantly from this analysis. For contractual maturity of financial liabilities refer note 37 (c).

(USD '000)

2009	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and balances with banks	14,287	-	-	-	-	**14,287**
Placements with financial institutions	50,789	-	-	-	-	**50,789**
Investment securities	-	-	1,027	42,634	85,598	**129,259**
Investments in associates and joint ventures	-	-	22,093	-	14,721	**36,814**
Investment property	-	-	-	-	62,884	**62,884**
Receivable from investment banking services	323	2,810	3,247	1,833	1,712	**9,925**
Short term funding to project companies	-	5,034	-	5,090	4,294	**14,418**
Other assets	-	22,172	126	905	415	**23,618**
Property and equipment	-	-	-	-	14,007	**14,007**
Total assets	**65,399**	**30,016**	**26,493**	**50,462**	**183,631**	**356,001**
Liabilities						
Islamic financing payables	13,262	47	48	71	-	13,428
Payable on acquisition of investment property	6,564	12,535	11,434	11,204	-	41,737
Employee accruals	500	1,486	-	-	3,781	5,767
Other liabilities	9,272	-	-	-	-	9,272
Total liabilities	**29,598**	**14,068**	**11,482**	**11,275**	**3,781**	**70,204**
Commitments and contingencies	-	-	-	21,278	16,103	**37,381**
Restricted investment account	195	-	12,308	4,276	-	**16,779**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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33 Maturity profile (continued)

2008	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and balances with banks	1,093	-	-	-	-	1,093
Placements with financial institutions	31,718	-	-	-	-	31,718
Investment securities	-	-	953	40,295	74,820	116,068
Investments in associates and joint ventures	-	-	-	-	17,147	17,147
Assets held-for-sale			22,843	-	-	22,843
Investment property	-	-	-	-	8,442	8,442
Receivable from investment banking services	484	6,962	-	1,870	-	9,316
Short term funding to project companies	-	9,544	-	-	-	9,544
Other assets	1,378	3,810	4,850	-	12,215	22,253
Property and equipment	-	-	-	-	5,171	5,171
Total assets	34,673	20,316	28,646	42,165	117,795	243,595
Liabilities						
Financing payables	-	52	52	184	-	288
Employee accruals	12,026	-	-	2,509	-	14,535
Other liabilities	3,572	-	-	-	-	3,572
Total liabilities	15,598	52	52	2,693	-	18,395
Commitments and contingencies	2,270	-	-	-	17,480	19,750
Restricted investment account	192	-	-	-	4,423	4,615

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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34 CONCENTRATION OF ASSETS, LIABILITIES, AND RESTRICTED INVESTMENT ACCOUNTS

a) Industry sector

2009	Trading & Manufactu-ring	Banks & financial Institutions	Real estate	Oil and Gas	Health care	Technology	Shipping	Others	Total
Assets									
Cash and balances with banks	-	14,287	-	-	-	-	-	-	**14,287**
Placements with financial institutions	-	50,789	-	-	-	-	-	-	**50,789**
Investment securities	12,805	991	57,556	20,027	2,650	2,073	17,255	15,902	**129,259**
Investment in associates and joint ventures	-	-	24,007	-	3,363	4,636	-	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	-	3,306	9,914	-	-	-	-	787	**14,007**
Total assets	**14,356**	**72,785**	**165,251**	**20,032**	**12,405**	**9,989**	**17,255**	**43,928**	**356,001**
Liabilities									
Financing payables	-	13,428	-	-	-	-	-	-	**13,428**
Payable on acquisition of investment property	-	-	-	-	-	-	-	41,737	**41,737**
Employee accruals	-	-	-	-	-	-	-	5,767	**5,767**
Other liabilities	497	3,300	-	-	-	-	313	5,162	**9,272**
Total liabilities	**497**	**16,728**	**-**	**-**	**-**	**-**	**313**	**52,666**	**70,204**
Commitments and contingencies	8,437	-	21,644	-	7,300	-	-	-	**37,381**
Restricted investment accounts	-	3,292	12,308	-	-	-	-	1,179	**16,779**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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34 Concentration of assets, liabilities and restricted investment accounts (continued)

a) Industry sector (continued)

2008	Trading & Manufactu-ring	Banks & financial Institutions	Real estate	Oil and Gas	Health care	Technology	Shipping	Others	Total
Assets									
Cash and balances with banks	-	1,093	-	-	-	-	-	-	1,093
Placements with financial institutions	-	31,718	-	-	-	-	-	-	31,718
Investment securities	13,405	837	70,560	14,109	-	-	14,174	2,983	116,068
Investment in associates and joint ventures	-	-	1,732	700	3,722	6,035	-	4,958	17,147
Assets held-for-sale	-	-	22,843	-	-	-	-	-	22,843
Investment property	-	-	8,442	-	-	-	-	-	8,442
Receivable from investment banking services	339	-	2,947	-	4,647	295	525	563	9,316
Short term funding to project companies	5,720	-	3,472	-	352	-	-	-	9,544
Other assets	93	-	7,892	218	599	780	34	12,637	22,253
Property and equipment	-	4,945	-	-	-	-	226	-	5,171
Total assets	19,557	38,593	117,888	15,027	9,320	7,110	14,959	21,141	243,595
Liabilities									
Financing payables	-	288	-	-	-	-	-	-	288
Employee accruals	-	-	-	-	-	-	-	14,535	14,535
Other liabilities	-	-	-	-	-	-	-	3,572	3,572
Total liabilities	-	288	-	-	-	-	-	18,107	18,395
Commitments and contingencies	-	2,658	14,822	-	-	-	-	2,270	19,750
Restricted investment accounts	-	3,310	-	-	-	-	-	1,305	4,615

for the year ended 31 December 2009 USD'000

34 Concentration of assets, liabilities and restricted investment accounts (continued)

(b) Geographic region

2009	GCC countries	Other MENA countries	Global	Cayman/ Americas	Total
Assets					
Cash and balances with banks	14,202	85	-	-	14,287
Placement with financial institutions	50,523	266	-	-	50,789
Investment securities	82,221	30,811	16,227	-	129,259
Investment in associates and joint ventures	30,318	1,859	4,637	-	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 assts	23,143	463	-	12	23,618
Property and equipment	13,196	811	-	-	14,007
Total Assets	**293,272**	**35,919**	**23,671**	**3,139**	**356,001**
Liabilities					
Financing payable	13,428	-	-	-	13,428
Payable on acquisition of investment property	-	-	-	41,737	41,737
Employee accruals	5,767	-	-	-	5,767
Other liabilities	5,162	497	3,613	-	9,272
Total liabilities	**24,357**	**497**	**3,613**	**41,737**	**70,204**
Commitments and contingencies	28,943	8,438	-	-	**37,381**
Restricted investment accounts	16,779	-	-	-	**16,779**

for the year ended 31 December 2009 USD'000

34 Concentration of assets, liabilities and restricted investment accounts (continued)

(b) Geographic region (continued)

2008	GCC countries	Other MENA countries	Global	Cayman/ Americas	Total
Assets					
Cash and balances with banks	1,093	-	-	-	1,093
Placement with financial institutions	31,718	-	-	-	31,718
Investment securities	82,397	20,571	13,000	100	116,068
Investment in associates and joint ventures	14,489	1,958	-	700	17,147
Assets held-for-sale	22,843	-	-	-	22,843
Investment property	8,442	-	-	-	8,442
Receivable from investment banking services	8,417	375	524	-	9,316
Short term funding to project companies	3,824	5,720	-	-	9,544
Other assets	21,803	198	34	218	22,253
Property and equipment	5,171	-	-	-	5,171
Total Assets	200,197	28,822	13,558	1,018	243,595
Liabilities					
Financing payable	288	-	-	-	288
Employee accruals	14,535	-	-	-	14,535
Other liabilities	3,204	368	-	-	3,572
Total liabilities	18,027	368	-	-	18,395
Commitments and contingencies	19,750	-	-	-	19,750
Restricted investment accounts	4,615	-	-	-	4,615

35 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 2009, the Group had fiduciary assets under management of USD 672 million (2008: USD 650 million).

36 COMMITMENTS AND CONTINGENCIES

The Group has issued financial guarantees for USD 16.10 million (2008: USD 17.48 million) in respect of its development projects, on which no losses are expected. The Group also had commitment to finance of USD 11.4 million (31 December 2008: Nil) and commitments to invest of USD 9.8 million (31 December 2008: USD 2.27 million).

37 RISK MANAGEMENT AND CAPITAL ADEQUACY

The Group has an internal risk management function to oversee risk management and ensure the maintenance of an adequate capital base in line with best practice and in compliance with the regulations of the Central Bank of Bahrain. The Risk Committee of the Board has the overall responsibility for this function, which is managed by the Management's Executive Committee through the Risk Management Department.

The Risk Management Department independently identifies and evaluates risks in respect of each investment proposal, and periodically monitors and measures risks at investment and balance sheet level. The Head of Risk Management is the secretary to the Risk Committee of the Board and has access to the Board of Directors.

The Group is exposed to credit risk, concentration risk, liquidity risk, and market risk (which comprises equity price risk, profit rate risk and currency risk), in addition to operational risk. The Group's approach to monitoring, measuring and managing these risks are discussed below.

a) Credit risk

Credit risk is the risk that 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, financing receivables and certain other assets like receivables from investment banking services, structuring fee.

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.

The maximum exposure of credit risk on the financial assets of the bank is the carrying value of the financial assets as at 31 December 2009. The Bank does not hold collateral against any of its exposures as at 31 December 2009.

Past due

At 31 December 2009, the Bank has receivable of investment banking fee, short-term funding to project companies and expenses recoverable amounting to USD 26.14 million (2008: USD 20.05 million). These receivables are generally interest-free 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 Bank 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 33.

37 Risk management and capital adequacy (continued)

Impaired financial assets

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

Based on the estimates and recovery of these receivables, the Group has made an impairment provision of USD 2,409 thousand (2008: USD 173 thousand) against its receivable exposure.

Movement in impairment allowance:

(USD'000)

2009	**Receivable from investment banking services**	**Short-term funding to project companies**	**Other assets**	**Total**
At 1 January	-	-	749	**749**
Addition during the year	1,080	1,150	179	**2,409**
At 31 December	**1,080**	**1,150**	**928**	**3,158**

(USD'000)

2008	Receivable from investment banking services	Short-term funding to project companies	Other assets	Total
At 1 January	-	-	576	576
Addition during the year	-	-	173	173
At 31 December	-	-	749	749

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 34.

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 Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

37 Risk management and capital adequacy (continued)

Financial Control Department (FCD) collates data from treasury and other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. FCD communicates the information to the treasury who manages the Bank's portfolio of short-term liquid assets, largely made up of short-term placements with other banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The 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 33 for the expected maturity profile of assets and liabilities.

	Gross undiscounted cash flows					
2009	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Carrying amount**
Liabilities						
Islamic financing payables	13,262	47	48	71	-	13,428
Payable on acquisition of investment property	6,564	12,535	11,434	11,204	-	41,737
Employee accruals	500	1,486	-	-	3,781	5,767
Other liabilities	9,272	-	-	-	-	9,272
Total financial liabilities	**29,598**	**14,068**	**11,482**	**11,275**	**3,781**	**70,204**
Commitments and contingencies	-	-	-	21,278	16,103	**37,381**

	Gross undiscounted cash flows					
2008	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Carrying amount
Liabilities						
Islamic financing payables	-	52	52	184	-	288
Employee accruals	12,026	-	-	2,509	-	14,535
Other liabilities	3,572	-	-	-	-	3,572
Total financial liabilities	15,598	52	52	2,693	-	18,395
Commitments and contingencies	2,270	-	-	-	17,480	19,750

d) Market risk

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holdings of financial instruments. Market risk comprises three types of risk: currency risk, profit rate risk and other price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

37 Risk management and capital adequacy (continued)

Profit rate risk

Profit rate risk arises due to different timing of re-pricing of the Group's assets and liabilities. The Group's significant financial assets and liabilities sensitive to profit rate are placements with financial institutions, financing receivables, Held-to-maturity securities and financing payable. 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:

	2009	2008
Placements with financial institutions	1.26%	3.09%
Short-term funding to project companies	3.00%	3.00%
Financing payables	6.93%	5.85%

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:

100 bps parallel increase / (decrease)	**2009**	2008
Placements with financial institutions	± 471	± 349
Short-term funding to project companies	± 34	± 152
Financing payables	± 137	± 5

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.

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, Saudi Riyals and UAE Dirhams. The Group seeks to manage currency risk by continually monitoring exchange rates and exposures.

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

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Kuwaiti Dinars	3,171	3,338
Saudi Riyals *	38,433	5,751
UAE Dirhams *	11,557	-
Euro	12	18
Omani Riyals *	8,570	8,570
Jordanian Dinars *	124	-

* Pegged to US dollar

A 10 percent strengthening/ weakening of the USD at 31 December 2009 would have decreased/ increased the profit by USD 318 thousand (2008: USD 334 thousand). This analysis assumes that all other variables, in particular profit rates, remain constant. On other currencies pegged to USD the Bank expects no significant currency risk.

37 Risk management and capital adequacy (continued)

Other price risk

The Group's available-for-sale equity securities carried at cost are exposed to risk of changes in equity values. Refer note 32 for significant estimates and judgements in relation to impairment assessment of available-for-sale equity investments carried at cost. The Group manages exposure to other price risks by actively monitoring the performance of the equity securities. The performance assessment is performed on a quarterly basis and is reported to the Board Finance and Investment Committee.

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the value of individual companies' shares. The Group does not have significant exposure to listed equity instruments. The Group's exposure is detailed in note 4 to these financial statements.

e) Operational risk

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

f) Capital management

The Bank's regulator Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. The Bank 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 Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

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

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

USD'000

Capital adequacy	**31 December 2009**	31 December 2008
Total risk weighted assets	**647,781**	**463,036**
Tier 1 capital	333,072	207,542
Tier 2 capital	8,295	8,093
Total regulatory capital	**341,367**	**215,635**
Total regulatory capital expressed as a percentage of total risk weighted assets	**52.70%**	**46.52%**

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

38 FAIR VALUE

(a) Fair value of financial assets and liabilities

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Other than certain unquoted available-for-sale investments of USD 46,823 thousand (2008: USD 36,059 thousand) and investment in sukuk of USD Nil (2008: USD 7,800 thousand) that are carried at cost, the estimated fair values of the Group's other financial assets and liabilities are not significantly different from their book values.

The table below sets out the Group's classification of each class of financial assets and liabilities:

2009	**Trading**	**Designated at fair values**	**Held-to-maturity**	**Loans and receivables**	**Available-for-sale**	**Other amortised cost**	**Total carrying amount**
Assets							
Cash and balances with banks	-	-	-	14,287	-	-	**14,287**
Placements with financial institutions	-	-	-	50,789	-	-	**50,789**
Investments securities	1,351	84,248	-	-	43,660	-	**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	**1,351**	**84,248**	**-**	**113,037**	**43,660**	**-**	**242,296**
Liabilities							
Financing payable	-	-	-	-	-	13,428	**13,428**
Payable on acquisition of investment property	-	-	-	-	-	41,737	**41,737**
Other liabilities	-	-	-	-	-	7,678	**7,678**
Total financial liabilities	**-**	**-**	**-**	**-**	**-**	**62,843**	**62,843**
Restricted investment accounts	-	-	-	12,503	4,276	-	**16,779**

38 *Fair value (continued)*

(a) Fair value of financial assets and liabilities (continued)

2008	Trading	Designated at fair values	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount
Assets							
Cash and balances with banks	-	-	-	1,093	-	-	1,093
Placements with financial institutions	-	-	-	31,718	-	-	31,718
Investments securities	4,646	69,820	-	-	41,602	-	116,068
Receivable from investment banking services	-	-	-	9,316	-	-	9,316
Short term funding to project companies	-	-	-	9,544	-	-	9,544
Other assets	-	-	-	22,253	-	-	22,253
Total financial assets	4,646	69,820	-	73,924	41,602	-	189,992
Liabilities							
Financing payable	-	-	-	-	-	288	288
Other liabilities	-	-	-	-	-	512	512
Total financial liabilities	-	-	-	-	-	800	800
Restricted investment accounts	-	-	-	192	4,423	-	4,615

38 Fair value (continued)

(b) Fair value hierarchy

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

- ***Level 1*** – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities on exchanges.
- ***Level 2*** – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- ***Level 3*** – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes certain unquoted equity investments with significant unobservable components.

This hierarchy requires the use of observable market data when available. There have been no transfers between the levels of valuation in 2009.

(USD'000)

2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Held for trading	1,351	-	-	**1,351**
Designated at fair value investments	-	-	75,011	**75,011**
Available-for-sale investments	6,074	-	-	**6,074**
	7,425	**-**	**75,011**	**82,436**

The table below shows the reconciliation of movements in value of investments measured using Level 3 inputs:

2009	USD' 000
Balance at 1 January	69,820
Total gains or losses:	
- In profit or loss	(670)
- In other comprehensive income	-
Purchases	8,848
Sales/ settlements	(2,987)
At 31 December	**75,011**

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

38 Fair value (continued)

The potential income effect of 1% change, up or down, in the discount rates, which is a key variable used in the valuation technique, would decrease the fair values by USD 6,387 thousand or increase the fair values by USD 2,812 thousand respectively. The potential income effect of 0.5 times change, up or down, in the market multiples, which is a key variable used in the valuation technique, would increase the fair values by USD 4,372 thousand or reduce the fair values by USD 4,372 thousand respectively.

39 EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year ended 31 December as follows:

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Profit for the year attributable to shareholders of the parent	11,013	47,621
Weighted average number of equity shares (in 000's)	157,500	157,500
Basic earnings per share (in US cents)	**6.99**	30.24

Diluted earnings per share

Diluted earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year after adjustment for the effects of dilutive potential ESOP shares calculated as follows:

	31 December 2009 (USD'000)	31 December 2008 (USD'000)
Profit for the year attributable to shareholders of the parent	11,013	47,621
Weighted average number of shares - basic (in 000's)	157,500	157,500
Effect of ESOP shares (in 000's)	3,204	11,348
Weighted average number of shares – diluted (in 000's)	**160,704**	168,848
Diluted earnings per share (in US cents)	**6.85**	28.20

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

The following standards and interpretations have been issued by standard setters during 2009 and are mandatory for the Group's annual accounting periods beginning on 1 January 2010 or later periods and are expected to be relevant to the Group:

a) *International Financial Reporting Standards and interpretations issued by IASB*

- **IFRS 3, 'Business combinations'**
  Revised IFRS 3 Business Combinations (2008) incorporates the following changes that are likely to be relevant to the Group's operations:
  - The definition of a business has been broadened, which may result in more acquisitions being treated as business combinations.
  - Contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss.
  - Transaction costs, other than share and debt issue costs, are expensed as incurred.
  - Any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in profit or loss.
  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

  The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010 and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

- **IAS 27 Consolidated and Separate Financial Statements (amended 2008)**
  The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010. In the future, this guidance will also tend to produce higher volatility in equity and/or earnings in connection with the acquisition of interests by the Group.

- **IFRIC 17, 'Distribution of non-cash assets to owners'**
  IFRIC 17 was issued in November 2008. It addresses how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognised when the dividend was authorised by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognised at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit and loss. Additional disclosures are to be made if the net assets being held for distribution to owners meet the definition of a discontinued operation. The application of IFRIC 17 has no impact on the financial statements of the Group.

40 New international financial reporting standards and interpretations not yet effective for adoption (continued)

- **IFRS 9 'Financial Instruments'**
  IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows: Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

  All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment. While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

  The Group is currently in the process of evaluating the potential effect of this standard. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

- **Improvements to IFRSs**
  Improvements to IFRS issued in April 2009 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for annual periods beginning on or after 1 January 2010 with earlier adoption permitted. No material changes to accounting policies are expected as a result of these amendments.

b) Financial Accounting Standards issued by AAOIFI

- FAS 23 Consolidation (effective for annual periods beginning on or after 1 January 2010); and
- FAS 24 Investment in Associates (effective for annual periods beginning on or after 1 January 2010).

The requirements of these standards are largely in line with the current policies followed by the Group for accounting of subsidiaries and associates and the adoption of these standards are not expected to have any material impact on the consolidated financial statements. The Group had not early adopted any new or amended standards in 2009.

41 SUBSIDIARIES OF THE BANK

Material wholly owned operating subsidiaries of the Bank as at 31 December 2009 include:

Subsidiary	Domicile	Principal activities
Gulf Projects Company WLL (refer note 7)	Kingdom of Bahrain	Own and operate the VC Bank building.
The Lounge Service Offices Co. Limited (note 15)	Cayman Island	Renting and managing furnished and unfurnished office space in VC Bank building.
Lime Restaurant WLL	Kingdom of Bahrain	To hold right to use of retail outlets in the VC Bank building.
Mena SME Fund Manager Limited (note 23)	Cayman Island	Fund manager to Mena SME Fund LP.
VC Bank ESOP SPC	Kingdom of Bahrain	To hold employee share ownership plan shares on behalf of the employees of the Bank.

42 COMPARATIVES

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