REPORT OF THE AUDITORS

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TO THE SHAREHOLDERS Venture Capital Bank BSC (c)
Manama, Kingdom of Bahrain

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements aet out in pages ---- to --- , of Venture Capital Bank B.S.C. (c) ("the Bank") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated statements of income, changes in equity, cash flows, changes in restricted investment accounts and sources and uses of charity and 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2008, and of its financial performance, cash flows, changes in equity, changes in restricted investment accounts and sources and uses of charity and 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 present fairly, in all material respects, the financial position of the Group as at 31 December 2008 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.

KPMG

Manama, Kingdom of Bahrain
22 January 2009

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CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2008

	Note	31 December 2008 USD' 000	31 December 2007 USD' 000
ASSETS			
Cash and balances with banks		1,093	170
Placements with financial institutions	3	31,718	69,823
Islamic financing receivables	4	5,720	6,084
Investment securities	5	116,068	69,376
Investments in associates and joint ventures	6	16,946	3,034
Assets held-for-sale	7	23,044	-
Investment property	8	8,442	9,380
Receivable from investment banking services		9,316	34,509
Other assets	9	26,077	26,503
Equipment	10	5,171	3,127
Total assets		243,595	222,006
LIABILITIES			
Islamic financing payables	11	288	8,674
Employee accruals		14,535	8,821
Other liabilities		3,572	1,896
Total liabilities		18,395	19,391
EQUITY			
Share capital	12	165,000	165,000
Share premium		13,533	13,533
Unvested shares of employee share ownership plan		(15,000)	(15,000)
Statutory reserve		9,314	4,552
Investments fair value reserve		(85)	180
Employee share ownership plan reserve		3,073	1,800
Retained earnings		49,352	31,887
Total equity attributable to shareholders of the parent		225,187	201,952
Minority interest		13	663
Total equity (page 8)		225,200	202,615
Total liabilities and equity		243,595	222,006
Off-balance sheet items			
Restricted investment accounts (page 11)		4,615	5,110

The consolidated financial statements, which consist of pages 6 to 43, were approved by the Board of Directors on 4 February 2009 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 36 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	31 December 2008 USD' 000	31 December 2007 USD' 000
Income from investment banking services	13	67,523	39,143
Income from placements with financial institutions		1,077	2,073
Income from Islamic financing		457	2,735
Income from investment securities	14	10,368	9,179
Income from sale of investment property		1,462	-
Income from investment in associates and joint ventures		365	900
Other income		795	368
Total income		82,047	54,398
Staff cost	15	20,481	15,245
Travel and business development expenses	16	2,306	2,432
Impairment allowances	17	6,563	1,708
Finance expense		28	459
Other expenses	18	4,420	2,218
Total expenses		33,798	22,062
Profit for the year from continuing operations		48,249	32,336
Loss on assets held-for-sale	7	(1,208)	-
Profit for the year		47,041	32,336
Attributable to:			
Shareholders of the parent		47,621	32,301
Minority interest		(580)	35
		47,041	32,336
Earnings per share (US cents)			
Basic	33	31.75	39.10
Diluted	33	30.60	37.78

The accompanying notes from 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

2008	Share capital	Share premium	Unvested ESOP shares	Statutory reserve	Investments fair value reserve	ESOP reserve	Retained earnings	Total	Minority interest	Total
	Attributable to the shareholders of the parent									
Balance at 1 January 2008	165,000	13,533	(15,000)	4,552	180	1,800	31,887	201,952	663	202,615
Fair value changes	-	-	-	-	(265)	-	-	(265)	-	(265)
Net expense recognised directly in equity	-	-	-	-	(265)	-	-	(265)	-	(265)
Profit for the year	-	-	-	-	-	-	47,621	47,621	(580)	47,041
Total recognised income and expense	-	-	-	-	(265)	-	47,621	47,356	(580)	46,776
Transfer to statutory reserve	-	-	-	4,762	-	-	(4,762)	-	-	-
Dividends declared (2007)	-	-	-	-	-	-	(23,775)	(23,775)	-	(23,775)
Directors remuneration (2007)	-	-	-	-	-	-	(1,310)	(1,310)	-	(1,310)
Employee share ownership plan vesting charge (ESOP)	-	-	-	-	-	1,273	-	1,273	-	1,273
Zakah contribution (2007)	-	-	-	-	-	-	(309)	(309)	-	(309)
Minority interest attributable to asset held-for-sale (note 7)	-	-	-	-	-	-	-	-	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**

2007	Share capital	Share premium	Unvested ESOP shares	Statutory reserve	Investments fair value reserve	ESOP reserve	Retained earnings	Total	Minority interest	Total
	Attributable to the shareholders of the parent									
Balance at 1 January 2007	66,000	-	-	1,322	-	-	11,901	79,223	614	79,837
Fair value changes	-	-	-	-	180	-	-	180	-	180
Net income recognised directly in equity	-	-	-	-	180	-	-	180	-	180
Profit for the year	-	-	-	-	-	-	32,301	32,301	35	32,336
Total recognised income and expense	-	-	-	-	180	-	32,301	32,481	35	32,516
Transfer to statutory reserve	-	-	-	3,230	-	-	(3,230)	-	-	-
Dividends declared (2006)	-	-	-	-	-	-	(4,950)	(4,950)	-	(4,950)
Directors remuneration (2006)	-	-	-	-	-	-	(835)	(835)	-	(835)
Issue of bonus shares	3,300	-	-	-	-	-	(3,300)	-	-	-
Issue of ordinary shares	80,700	13,533	-	-	-	-	-	94,233	-	94,233
Issue of shares to ESOP	15,000	-	-	-	-	-	-	15,000	-	15,000
ESOP vesting charge	-	-	-	-	-	1,800	-	1,800	-	1,800
Unvested shares held by ESOP	-	-	(15,000)	-	-	-	-	(15,000)	-	(15,000)
Minority interest	-	-	-	-	-	-	-	-	14	14
Balance at 31 December 2007	165,000	13,533	(15,000)	4,552	180	1,800	31,887	201,952	663	202,615

The accompanying notes from 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2008

	31 December 2008 USD' 000	31 December 2007 USD' 000
OPERATING ACTIVITIES		
Murabaha profits received	1,077	2,073
Dividends received	1,158	352
Other income received	795	229
Profits received from Islamic financing receivables	457	2,735
Islamic financing assets, net	(742)	1,956
Placement, management and advisory fees received	1,600	-
Investment banking fees received	92,892	8,324
Purchase of investment securities	(62,553)	(46,475)
Purchase of investment property	-	(93)
Acquisition of assets held-for-sale	(22,516)	-
Sale of investment securities	10,332	27,796
Advances to acquire investments	(13,446)	(8,943)
Directors remuneration paid	(1,310)	(835)
Payments for staff cost	(13,473)	(6,353)
Payments for other expenses	(5,573)	(4,207)
Cash flows from operating activities	(11,302)	(23,441)
INVESTING ACTIVITIES		
Purchase of equipment	(2,845)	(3,121)
Cash flows from investing activities	(2,845)	(3,121)
FINANCING ACTIVITIES		
Proceeds from issue of additional ordinary shares	-	93,881
Minority interest	-	13
Islamic financing payables, net	(151)	392
Dividends paid	(22,575)	(4,875)
Zakah paid	(309)	-
Cash flows from financing activities	(23,035)	89,411
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(37,182)	62,849
Cash and cash equivalents at beginning of the year	69,993	7,144
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	32,811	69,993
Cash and cash equivalents per the balance sheet		
Cash and balances with banks	1,093	170
Placements with financial institutions	31,718	69,823
	32,811	69,993

The accompanying notes from 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2008	Balance 1 Jan 2008	Investors funds received	Investors funds repaid	AFS revaluation adjustments	Gross income	Dividend paid	Administration expenses	Bank's fees as agent	Balance 31 Dec 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

2007	Balance 1 Jan 2008	Investors funds received	Investors funds repaid	AFS revaluation adjustments	Gross income	Dividend paid	Administration expenses	Bank's fees as agent	Balance 31 Dec 2007
The GCC Pre-IPO Fund	7,324	-	(1,807)	(459)	52	-	-	-	5,110
Representing:									
Investments in equities									4,927
Funds in short term murabaha									183
									5,110

The GCC Pre-IPO Fund targets investments in selected GCC equities in the pre-IPO stage with the primary objective of benefiting from the potential market gains expected to arise from their IPO's. Investors nominate the specific equities they wish to participate in from a pool of GCC Pre-IPO equities, specifying the amounts in each, and receive all returns less the Bank's fee of 20% over a 10% simple return.

The accompanying notes from 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF CHARITY AND ZAKAH FUND

FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 USD' 000	2007 USD' 000
Sources of charity and Zakah fund		
Contributions by the Bank	309	-
Total sources	309	-
Uses of charity fund and Zakah fund		
Contributions to charitable organisations	309	-
Total uses	309	-
Excess of sources over uses	-	-
Undistributed charity and Zakah fund at 1 January	-	-
Undistributed charity and Zakah fund at 31 December	-	-

The accompanying notes from 1 to 36 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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 consolidated financial statements, and have been consistently applied by Group entities.

(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 and International Financial Reporting Standards ("IFRS").

(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 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. 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 27.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises (including special purpose vehicles) controlled by the Bank. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise 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. 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.

(ii) Associates and joint ventures

Associates are those enterprises in which the Group hold, directly or indirectly, more than 20% 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 at fair value through profit or loss' in accordance with IAS 39 [refer note 2(d) (i)].

If the equity accounting method is chosen for an associate or a joint venture, the consolidated financial statements include the Group's share of the associate's or the joint venture's total recognised gains and losses. 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.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency transactions

(i) Functional and presentation currency
Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US dollars, which is the Bank's functional and presentation currency.

(ii) Transactions and balances
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 other Group companies functional currencies are either denominated in 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.

(e) Financial assets and liabilities

(i) Recognition and derecognition
The Group initially recognises placements with financial institutions, Islamic financing assets, receivables, Islamic financing liabilities and payables on the date at which they are originated. All other financial assets and liabilities 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), including transaction costs that are directly attributable to its acquisition or issue.

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) Measurement principles
Financial assets 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 measurement

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.

(f) Islamic financing receivables

The Group initially recognises Islamic financing receivables on the date it is originated. Islamic financing receivables are stated 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 Islamic financing receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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, in the following categories: investment at fair value through profits or loss; held-to-maturity investments; and available-for-sale investments. Management determines the classification at initial recognition.

(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.

A financial asset 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 a financial asset 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 and investments in associates and joint ventures (see note 2(c)(ii)).

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, and which are not designated as carried at fair value through profit or loss or as available-for-sale. These include investments in Islamic Sukuks.

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 quoted and unquoted equity securities.

(ii) 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. Investments carried at fair value through profit or loss are initially recognised at fair value, and transaction cost are expensed in the profit or loss. Investment securities are subsequently accounted for depending on their classification as either fair value through profit or loss, held-to-maturity or available-for-sale.

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

(iv) Gains and losses on subsequent measurement

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 a separate fair value reserve in equity and when the investments are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the fair value reserve is transferred to the income statement.

(v) 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 shares 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 of certain available-for-sale investments and investments in associates and joint ventures designated at fair value through the profit or loss.

Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. Valuation adjustments are recorded to allow for model risks, 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.

(vi) Impairment of investment securities

The Group assesses at each balance sheet date whether there is objective evidence that an investment security is impaired.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. In case of equity securities quoted in active market, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

(h) Investment property

Investment property include properties held to earn rentals or capital appreciation or both and are accounted for under the cost method.

(i) 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 (commodity murabahas) 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.

(j) 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 Bank 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 Bank remains committed to its plan to sell.

(ii) Measurement

Non-current assets or disposal groups classified as held for sale, other than financial instruments measured under International Accounting Standard ('IAS') 39 'Financial Instruments: Recognition and Measurement', 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 carried at fair value in accordance with IAS 39.

(k) Equipment

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 2 to 4 years. Residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(l) Impairment of other assets

The carrying amounts of the Group's assets (other than financial assets) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. 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.

(m) Financing liabilities

Financing liabilities comprise facilities from financial institutions to finance acquisition of equipment and investment activities of the Bank. Financing liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method.

(n) Dividends and Board remuneration

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Revenue recognition

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. The assessment of whether economic benefits from a transaction will flow to the Bank is determined when legally binding commitments have been obtained from external investors for a substantial investment in the transaction. Income is then recognised on a pro-rata basis to the extent of such firm commitments received at the reporting date.

Fee income from investment banking services is recognised when earned and the related services are performed.

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

Income from Sukuk is recognised on a time-apportioned basis over the term of the Sukuk.

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

(p) 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.

(q) 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.

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector of 1976, 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 balance sheet date. These benefits are in the nature of a "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the income statement.

(iii) Share based payment transactions

The Group has established an employees 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.

(r) Statutory reserve

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

(s) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2008 USD' 000	31 December 2007 USD' 000
Gross commodity murabaha	31,726	70,074
Less: Deferred profits	(8)	(251)
	31,718	69,823

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

4. ISLAMIC FINANCING RECEIVABLES

	31 December 2008 USD' 000	31 December 2007 USD' 000
Gross murabaha financing	5,806	6,875
Less: Deferred profits	(86)	(791)
	5,720	6,084

Islamic financing receivables mainly comprise short-term financing provided to projects promoted by the Bank.

5. INVESTMENT SECURITIES

	31 December 2008 USD' 000	31 December 2007 USD' 000
Investments at fair value through profit or loss	74,466	35,932
Held-to-maturity investments	-	7,800
Available-for-sale investments	41,602	25,644
	116,068	69,376

(i) Investments at fair value through profit or loss

	31 December 2008 USD' 000	31 December 2007 USD' 000
Held for trading - listed equities	4,646	1,396
Designated at fair value though profit or loss:		
Associates - unquoted	-	4,940
Joint ventures - unquoted	33,172	13,278
Equity securities - unquoted	29,092	8,218
Funds - unquoted	7,556	8,100
	74,466	35,932

During the year, the Bank has recognised fair value gains amounting to USD 11,156 thousand (2007: USD 3,626 thousand) on re-measurement of investments designated at fair value through profit or loss. Of the total fair value changes recognised on investments designated at fair value through profit or loss during the year, USD 3,330 thousand (2007: USD 3,108 thousand) was determined based on recent transaction prices in the shares of the investee companies and USD 7,826 thousand (2007: USD 518 thousand) determined using valuation techniques.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

5. 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 2008 USD' 000	31 December 2007 USD' 000
Total assets	118,676	31,278
Total liabilities	50,757	1,005
Total revenues	10,398	981
Total net profit / (loss) for the year	5,037	(1,027)

(ii) Held-to-maturity securities

	31 December 2008 USD' 000	31 December 2007 USD' 000
Investment in Sukuk	-	7,800
	-	7,800

(iii) Available-for-sale investment securities

	31 December 2008 USD' 000	31 December 2007 USD' 000
Equity securities - quoted	5,277	11,448
Equity securities - unquoted	36,325	14,196
	41,602	25,644

Investments with a carrying value of USD 36,325 thousand (2007: USD 14,196 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 these companies and accordingly is unable to obtain reliable information to perform valuation of these investments. Such investments are either private equity investments managed by external investment managers or represent investments in projects promoted by the Group. The Group intends to exit these investments principally by means of sale to strategic buyers or through initial public offerings.

6. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31 December 2008 USD' 000	31 December 2007 USD' 000
Associates	16,246	2,134
Joint ventures	700	900
	16,946	3,034

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

	31 December 2008 USD' 000	31 December 2007 USD' 000
At 1 January	3,034	-
Acquisitions during the year	8,613	2,134
Reclassified on partial sale of asset held-for-sale (note 7)	5,834	-
Disposals during the year	(900)	-
Share of profits of associates and joint ventures, net	365	900
	16,946	3,034

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

USD' 000

6. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

	31 December 2008 USD' 000	31 December 2007 USD' 000
Total assets	54,762	12,671
Total liabilities	16,444	226
Total revenues	22	1,922
Total net profit for the year	(966)	1,576

7. ASSETS HELD-FOR-SALE

	31 December 2008 USD' 000	31 December 2007 USD' 000
Investment in a joint venture	23,044	-
	23,044	-

During the year, in its normal course of business, the Bank acquired 50% stake in a joint venture company and is in the process of structuring and placing it with investors.

Further, during the year, the Bank 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 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 the year end, the Group executed the sale transaction resulting in reduction in its stake below 50% thus leading to loss of control. The investment has now been classified as investment in associate - equity accounted and the assets and liabilities held-for-sale have been deconsolidated from the financial statements of the Bank.

8. INVESTMENT PROPERTY

Investment property includes land in Bahrain held for investment purposes. The fair value of the property at 31 December 2008 is approximately USD 30 million (2007: USD 20.6 million), determined based on a valuation by an independent external valuer.

9. OTHER ASSETS

	31 December 2008 USD' 000	31 December 2007 USD' 000
Receivable from sale of investments	3,655	6,650
Advances to acquire investments	16,702	8,964
Receivable on redemption of HTM investment	-	8,424
Project costs recoverable	4,950	1,980
Other receivables	770	485
	26,077	26,503

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

10. EQUIPMENT

	Computers and equipment	Furniture and fixtures	Motor vehicles	2008 Total (USD' 000)	2007 Total (USD' 000)
Cost					
At 1 January	299	2,626	506	3,431	310
Additions	672	2,145	28	2,845	3,121
At 31 December	**971**	**4,771**	**534**	**6,276**	3,431
Depreciation					
At 1 January	96	115	93	304	112
Charge for the period	154	515	132	801	192
At 31 December	250	630	225	1,105	304
Net book value At 31 December	**721**	**4,141**	**309**	**5,171**	3,127

11. ISLAMIC FINANCING LIABILITY

This includes Murabaha financing facility from a financial institution which bears a profit rate of 4.70% annually and matures in September 2011.

12. SHARE CAPITAL

	31 December 2008 USD' 000	31 December 2007 USD' 000
Authorised: 500,000,000 ordinary shares of USD 1 each	500,000	500,000
Issued and fully paid up: 165,000,000 shares of USD 1 each (2007: 165,000,000 shares of USD 1 each)	165,000	165,000

13. INCOME FROM INVESTMENT BANKING SERVICES

	31 December 2008 USD' 000	31 December 2007 USD' 000
Investment advisory and structuring income	63,504	38,147
Investment management and advisory fee	2,309	346
Placement and arrangement fee	1,710	650
	67,523	39,143

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

14. INCOME FROM INVESTMENT SECURITIES

	31 December 2008 USD' 000	31 December 2007 USD' 000
Trading securities	(3,611)	446
Investments designated at fair value through profit or loss	12,308	7,690
Held-to-maturity (HTM)	127	935
Available-for-sale investments (AFS)	1,349	108
Income on sale of controlling stake in a subsidiary	195	-
	10,368	9,179

Details of income by nature are as follows:

2008	Trading	Designated at fair value	HTM	AFS	Others	USD' 000 Total 2008
Fair value gains/ (losses)	(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

2007	Trading	Designated at fair value	HTM	AFS	Others	USD' 000 Total 2007
Fair value gain	347	3,626	-	108	-	4,081
Profit on sale	53	4,005	-	-	-	4,058
Dividends	46	59	-	-	-	105
Profit income	-	-	935	-	-	935
	446	7,690	935	108	-	9,179

15. STAFF COST

	31 December 2008 USD' 000	31 December 2007 USD' 000
Salaries and benefits	19,757	14,831
Social insurance expenses	719	397
Other staff expenses	5	17
	20,481	15,245

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

16. TRAVEL AND BUSINESS DEVELOPMENT EXPENSES

	31 December 2008 USD' 000	31 December 2007 USD' 000
Travel and accommodation	1,637	1,207
Legal and professional	669	1,225
	2,306	2,432

17. IMPAIRMENT ALLOWANCES

	31 December 2008 USD' 000	31 December 2007 USD' 000
Available-for-sale investments	6,390	1,708
Advances to acquire investments	173	-
	6,563	1,708

18. OTHER EXPENSES

	31 December 2008 USD' 000	31 December 2007 USD' 000
Rent and office expenses	2,190	1,013
Publicity, conferences and promotion	835	497
Board and Shari'ah expenses	536	348
Depreciation	801	192
Other costs	58	168
	4,420	2,218

19. TOTAL FINANACE INCOME AND EXPENSE

	31 December 2008 USD' 000	31 December 2007 USD' 000
TOTAL FINANCE INCOME		
Income from Islamic financing	457	2,735
Income from placements with financial institutions	1,077	2,073
Income from held-to-maturity Sukuks	127	935
	1,661	5,743
TOTAL FINANCE EXPENSE		
Islamic financing expense	(28)	(459)
NET FINANCE INCOME	1,633	5,284

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

20. EMPLOYEE SHARE OWNERSHIP PLAN

On 1 October 2007, the Group set up an employees share ownership plan (ESOP) under which employees are offered units in the ESOP for purchase at the book value of the equity shares of the Bank determined as on the grant date. Each unit represents the rights to the benefits of one equity share in the Bank and the purchase price of these units is to be paid in instalments over a 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, 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 15 million shares (maximum) under this scheme. The Group has incorporated VCBank ESOP SPC (ESOP Vehicle), a special purpose vehicle, to hold the shares for the benefits of the participating employees until they vest. The shares were issued to the ESOP vehicle in 2007 and are treated as treasury shares of the Bank until they unconditionally vest to the benefit of the employees.

Until 2007, 8.5 million units had been granted under the terms of the ESOP. During the year, the Bank has granted an additional 6.13 million units to its employees under the terms of the ESOP. The fair value charge of the units granted amounted to USD 2.91 million, of which USD 0.44 million has been charged to consolidated income statement during the year and included in staff costs. The cumulative vesting expense for the year, net of reversals due to forfeitures, amounted to USD 1.27 million. The amount of vesting expense recognised is adjusted to reflect the actual number of share grants that vest.

The model inputs used to determine the fair value of the units granted in 2008 were: the fair value of share on grant date of USD 1.60 per share, the exercise price of USD 1.12 per share, expected volatility of 17.56%, dividend yield (expected dividends) nil and a risk free rate of 2.53%. The expected volatility was determined based on the volatility of a listed comparator.

21. 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 placement and investment management fees and Islamic financing are from entities over which the Group exercises significant 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. Consequently, the true nature of the Group's transactions with these entities is effectively conducted at commercial terms and conditions. The terms and conditions for these transactions are approved by the Board of Directors of the Group.

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

	31 December 2008 USD' 000	31 December 2007 USD' 000
Assets		
Investments at fair value through profit or loss	33,945	16,256
Investment in associates	21,959	7,075
Investment in joint ventures	23,762	1,957

	31 December 2008 USD' 000	31 December 2007 USD' 000
Income		
Placement and investment management fees	908	-
Income from Islamic financing	457	2,735
Income from investment banking	8,316	-
Income from securities	8,022	-
Share of profit from associates and joint ventures	365	900

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

21. RELATED PARTY TRANSACTIONS (continued)

Key management personnel of the Group comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Company. The key management personnel compensation is as follows:

	31 December 2008 USD' 000	31 December 2007 USD' 000
Board remuneration	1,534	1,310
Board member fees	139	106
Salaries and other short-term benefits	10,436	7,473

22. ZAKAH

The Bank is not required to collect or pay Zakah on behalf of its shareholders or restricted investment accounts holders under its Articles of Association, but nevertheless makes contributions to Zakah on retained earnings and reserves based on the recommendations of the Bank's Shari'ah Supervisory Board (SSB). The amount's contributed in this regard are disclosed in the statement of sources and uses of Zakah and charity fund. 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 SSB. Zakah payable by the shareholders in respect of each share for the year ended 31 December 2008 is US cents 0.5360 for every share held (31 December 2007: US cents 1.9461 for every share held).

23. 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 period.

24. 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.

25. SOCIAL RESPONSIBILITY

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

26. 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 2008 USD' 000	31 December 2007 USD' 000
Proposed dividend - cash	16,500	23,775
Proposed dividend - bonus shares	8,250	-
Directors' remuneration	1,534	1,310

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

27. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING ESTIMATES

The Group makes estimates and assumptions that effect 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 (f)].

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.

(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 estimating uncertainty

(i) Fair value of investments

The Group determines the fair values of unquoted investments 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.

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 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% - 17.50%. 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 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 4,292 thousand or increase the fair values by USD 4,209 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 1,908 thousand or reduce the fair values by USD 2,741 thousand respectively.

(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 a 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

28. MATURITY PROFILE

The following table discloses undiscounted residual contractual maturities of the Group's assets and liabilities, except in case of investments in equity instruments, investment property, equipment and certain other assets and other liabilities, which are based on management's estimate of realisation.

2008	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total USD' 000
Assets						
Cash and balances with banks	1,093	-	-	-	-	1,093
Placements with financial institutions	31,718	-	-	-	-	31,718
Islamic financing receivables	-	5,720	-	-	-	5,720
Investment securities	-	-	953	40,295	74,820	116,068
Investments in associates and joint ventures	-	-	-	-	16,946	16,946
Assets held-for-sale	-	-	23,044	-	-	23,044
Investment property	-	-	-	-	8,442	8,442
Receivable from investment banking services	484	6,962	-	1,870	-	9,316
Other assets	1,378	3,810	4,850	-	16,039	26,077
Equipment	-	-	-	-	5,171	5,171
Total assets	**34,673**	**16,492**	**28,847**	**42,165**	**121,418**	**243,595**
Liabilities						
Islamic financing payables	-	-	-	288	-	288
Employee accruals	12,026	-	-	2,509	-	14,535
Other liabilities	3,572	-	-	-	-	3,572
Total liabilities	**15,598**	**-**	**-**	**2,797**	**-**	**18,395**
Off-balance sheet items						
Restricted investment account	192	-	-	-	4,423	4,615

2007	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total USD' 000
Assets						
Cash and balances with banks	170	-	-	-	-	170
Placements with financial institutions	69,823	-	-	-	-	69,823
Islamic financing receivables	2,546	3,538	-	-	-	6,084
Investment securities	7,800	-	3,305	18,735	39,536	69,376
Investments in associates and joint ventures	-	-	-	-	3,034	3,034
Investment property	-	-	-	9,380	-	9,380
Receivable from investment banking services	-	34,509	-	-	-	34,509
Other assets	9,785	6,400	10,318	-	-	26,503
Equipment	-	-	-	-	3,127	3,127
Total assets	90,124	44,447	13,623	28,115	45,697	222,006
Liabilities						
Islamic financing payables	8,263	-	-	-	411	8,674
Employee accruals	8,821	-	-	-	-	8,821
Other liabilities	1,896	-	-	-	-	1,896
Total liabilities	18,980	-	-	-	411	19,391
Off-balance sheet items						
Restricted investment account	182	-	-	-	4,928	5,110

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

29. CONCENTRATION OF ASSETS, LIABILITIES, AND RESTRICTED INVESTMENT ACCOUNTS

(a) Industry sector

2008	Trading & Manufacturing	Banks & Financial Institutions	Real Estate	Oil & Gas	Health Care	Technology	Shipping	Others	Total USD' 000
Assets									
Cash and balances with banks	-	1,093	-	-	-	-	-	-	1,093
Placements with financial institutions	-	31,718	-	-	-	-	-	-	31,718
Islamic financing receivables	5,720	-	-	-	-	-	-	-	5,720
Investment securities	13,405	837	70,560	14,109	-	-	14,174	2,983	116,068
Investment in associates and joint ventures	-	-	1,732	700	3,722	5,834	-	4,958	16,946
Assets held-for-sale	-	-	23,044	-	-	-	-	-	23,044
Investment property	-	-	8,442	-	-	-	-	-	8,442
Receivable from investment banking services	339	-	2,947	-	4,647	295	525	563	9,316
Other assets	93	-	11,364	218	951	780	34	12,637	26,077
Equipment	-	-	-	-	-	-	-	5,171	5,171
Total assets	**19,557**	**33,648**	**118,089**	**15,027**	**9,320**	**6,909**	**14,733**	**26,312**	**243,595**
Liabilities									
Islamic financing payables	-	288	-	-	-	-	-	-	288
Employee accruals	-	-	-	-	-	-	-	14,535	14,535
Other liabilities	-	-	-	-	-	-	-	3,572	3,572
Total liabilities	**-**	**288**	**-**	**-**	**-**	**-**	**-**	**18,107**	**18,395**
Off balance sheet assets									
Restricted investment accounts	-	3,310	1,305	-	-	-	-	-	4,615

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

USD' 000

29. CONCENTRATION OF ASSETS, LIABILITIES, AND RESTRICTED INVESTMENT ACCOUNTS (continued)

(a) Industry sector (continued)

2007	Trading & Manufacturing	Banks & Financial Institutions	Real Estate	Oil & Gas	Health Care	Technology	Shipping	Others	Total USD' 000
Assets									
Cash and balances with banks	-	170	-	-	-	-	-	-	170
Placements with financial institutions	-	69,823	-	-	-	-	-	-	69,823
Islamic financing receivables	-	-	2,546	-	-	-	-	3,538	6,084
Investment securities	1,209	8,721	23,052	9,913	-	4,941	3,305	18,235	69,376
Investment in associates and joint ventures	-	-	134	-	-	-	-	2,900	3,034
Investment property	-	-	9,380	-	-	-	-	-	9,380
Receivable from investment banking services	9,552	-	24,857	-	-	100	-	-	34,509
Other assets	-	-	-	-	-	6,550	14,358	5,595	26,503
Equipment	-	-	-	-	-	-	-	3,127	3,127
Total assets	10,761	78,714	59,969	9,913	-	11,591	17,663	33,395	222,006
Liabilities									
Islamic financing payables	-	8,674	-	-		-	-	-	8,674
Employee accruals	-	-	-	-	-	-	-	8,821	8,821
Other liabilities	-	-	-	-		-	-	1,896	1,896
Total liabilities	-	8,674	-	-	-	-	-	10,717	19,391
Off balance sheet assets									
Restricted investment accounts	-	3,280	1,830	-	-	-	-	-	5,110

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

USD' 000

29. CONCENTRATION OF ASSETS, LIABILITIES, AND RESTRICTED INVESTMENT ACCOUNTS (continued)

(b) Geographic region

2008	GCC Countries	Other MENA Countries	Global	Cayman/ Americas	Total USD' 000
Assets					
Cash and balances with banks	1,093	-	-	-	1,093
Placement with financial institutions	31,718	-	-	-	31,718
Islamic financing receivables	-	5,720	-	-	5,720
Investment securities	82,397	20,571	13,000	100	116,068
Investment in associates and joint ventures	14,288	1,958	-	700	16,946
Assets held-for-sale	23,044	-	-	-	23,044
Investment property	8,442	-	-	-	8,442
Receivable from investment banking services	8,417	375	524	-	9,316
Other assets	25,627	198	34	218	26,077
Equipment	5,171	-	-	-	5,171
Total assets	**200,197**	**28,822**	**13,558**	**1,018**	**243,595**
Liabilities					
Islamic financing payable	288	-	-	-	288
Employee accruals	14,535	-	-	-	14,535
Other liabilities	3,204	368	-	-	3,572
Total liabilities	**18,027**	**368**	**-**	**-**	**18,395**
Off balance sheet assets					
Restricted investment accounts	4,615	-	-	-	4,615

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

29. CONCENTRATION OF ASSETS, LIABILITIES, AND RESTRICTED INVESTMENT ACCOUNTS (continued)

(b) Geographic region (continued)

2007	GCC Countries	Other MENA Countries	Global	Cayman/ Americas	Total USD' 000
Assets					
Cash and balances with banks	170	-	-	-	170
Placement with financial institutions	69,823	-	-	-	69,823
Islamic financing receivables	6,084	-	-	-	6,084
Investment securities	56,037	5,239	-	8,100	69,376
Investment in associates and joint ventures	134	2,000	-	900	3,034
Investment property	9,380	-	-	-	9,380
Receivable from investment banking services	24,957	9552	-	-	34,509
Other assets	7,260	13,067	5,934	242	26,503
Equipment	3,127	-	-	-	3,127
Total Assets	176,972	29,858	5,934	9,242	222,006
Liabilities					
Islamic financing payable	8,674	-	-	-	8,674
Employee accruals	8,821	-	-	-	8,821
Other liabilities	1,896	-	-	-	1,896
Total liabilities	19,391	-	-	-	19,391
Off balance sheet assets					
Restricted investment accounts	5,110	-	-	-	5,110

30. 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 the balance sheet date, the Group had fiduciary assets under management of USD 650 million (2007: USD 181 million.)

31. COMMITMENTS AND CONTINGENCIES

The Group has issued letter of guarantee for USD 17.48 million (2007: USD 2.66 million) in respect of its development projects, on which no losses are expected. Also, at 31 December 2008, the Group had commitments to make investments totalling USD 2.27 million (2007: USD 27.17 million).

Operating lease commitments

The Group has signed a long-term lease for office space at the Park Plaza building in the Diplomatic Area of Bahrain, in respect of which lease rentals are due as follows:

Payable	31 December 2008 USD' 000	31 December 2007 USD' 000
Within one year	1,040	858
Two to five years	2,394	3,433
	3,434	4,291

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

32. 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 cash and balances with banks, placements with financial institutions, Islamic financing receivables, Held-to-Maturity securities (Sukuks) and certain other assets like receivables from investment banking services, structuring fee, receivable on redemption of HTM investment.

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 2008. The Bank does not hold collateral against any of its exposures as at 31 December 2008. The Bank does not have significant receivables which are past due.

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. The gross carrying value of available-for-sale investments that are impaired is USD 12,250 thousand (2007: USD 8,143 thousand) and the cumulative impairment allowance recognised is USD 8,972 thousand (2007: USD 7,264 thousand).

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 29.

c) Liquidity risk

Liquidity risk is defined as the risk that the Group will not have funds to meet liabilities as they fall due. 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.

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 maturity profile of assets and liabilities is set out in note 28.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

32. 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, Islamic financing receivables, Held-to-maturity securities and Islamic financing payable. The Group's exposure to profit rate risk is limited due the relatively short-term nature of these assets. Average profit rate on financial instruments were:

	2008	2007
Placements with financial institutions	3.09%	5.00%
Islamic financing receivables	3.00%	15.00%
Held-to-maturity securities	-	7.20%
Islamic financing payables	4.70%	5.85%

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 Islamic 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 2008 USD' 000	31 December 2007 USD' 000
Kuwaiti Dinars	3,338	4,783
Saudi Riyals	5,751	13,326
UAE Dirhams	-	28,759
Euro	18	-

A 10% strengthening/weakening of the USD against the Kuwaiti Dinars at 31 December 2008 would have decreased/ increased the profit by USD 334 thousand (2007: USD 478 thousand). This analysis assumes that all other variables, in particular profit rates, remain constant.
Saudi Riyals and UAE Dirhams are pegged to USD and there is no significant currency risk arising from these two currencies.

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 27 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 5 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 Group's regulator Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. 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. Capital requirements of the CBB have been complied with throughout the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

32. RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

f) Capital management (continued)

With effect from 1 January 2008 the Bank is required to comply with the provisions of the revised Capital Adequacy Module of the CBB (revised based on the Basel II framework) in respect of regulatory capital. The Bank has adopted the standardised approach to credit risk and basic indicator approach to measure operational risk management under the revised framework. There has been no significant change in the amount of available regulatory capital under the two norms. Further, as the Bank has not migrated to advanced approach for computation of risk weighted assets and it has not claimed any of the benefits under permissible credit risk mitigation, there is no significant change in the measurement of risk weighted assets for credit risk.

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

Capital adequacy	31 December 2008 USD' 000	31 December 2007 USD' 000
Total risk weighted assets	463,494	229,430
Tier 1 capital	174,149	165,517
Tier 2 capital	41,485	32,481
Total regulatory capital	215,634	197,998
Total regulatory capital expressed as a percentage of total risk weighted assets	47%	86%

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

33. FAIR VALUE

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 36,325 thousand (2007: USD 14,196 thousand) and investment in Sukuk of Nil (2007: 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 (USD' 000):

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
Islamic financing receivables	-	-	-	5,720	-	-	5,720
Investments securities	4,646	69,820	-	-	41,602	-	116,068
Receivable from investment banking services	-	-	-	9,316	-	-	9,316
Other assets	-	-	-	26,077	-	-	26,077
Total financial assets	4,646	69,820	-	73,924	41,602	-	189,992
Liabilities							
Islamic financing payable	-	-	-	-	-	288	288
Other liabilities	-	-	-	-	-	3,572	3,572
Total financial liabilities	-	-	-	-	-	3,860	3,860
Off-balance sheet items							
Restricted investment accounts	-	-	-	192	4,423	-	4,615

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

33. FAIR VALUE (continued)

2007	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	-	-	-	170	-	-	170
Placements with financial institutions	-	-	-	69,283	-	-	69,283
Islamic financing receivables	-	-	-	6,084	-	-	6,084
Investments securities	1,396	34,536	7,800	-	25,644	-	69,376
Receivable from investment banking services	-	-	-	34,509	-	-	34,509
Other assets	-	-	-	26,503	-	-	26,503
Total financial assets	1,396	34,536	7,800	136,549	25,644	-	205,925
Liabilities							
Islamic financing payable	-	-	-	-	-	8,674	8,674
Other liabilities	-	-	-	-	-	1,896	1,896
Total financial liabilities	-	-	-	-	-	10,570	10,570
Off-balance sheet items							
Restricted investment accounts	-	-	-	183	4,927	-	5,110

34. EARNINGS PER SHARE

Basic earning 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 period ended 31 December as follows:

	31 December 2008 USD' 000	31 December 2007 USD' 000
Profit for the year attributable to shareholders of the parent	47,621	32,301
Weighted average number of equity shares (in 000's)	150,000	82,602
Basic earnings per share (in US cents)	31.75	39.10

Diluted earning 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 2008 USD' 000	31 December 2007 USD' 000
Profit for the year attributable to shareholders of the parent	47,621	32,301
Weighted average number of shares - basic (in 000's)	150,000	82,602
Effect of ESOP shares (in 000's)	5,641	2,885
Weighted average number of shares - diluted (in 000's)	155,641	85,487
Diluted earnings per share (in US cents)	30.60	37.78

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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

A number of new relevant standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and therefore have not been applied in preparing these consolidated financial statements:

- IAS 1 Presentation of financial statements (effective for annual period beginning on or after 1 January 2009);
- IAS 23, Borrowing costs (effective for annual period beginning on or after 1 January 2009);
- IFRS 2 Share-based Payment: Vesting Conditions and Cancellations (effective for annual period beginning on or after 1 January 2009; and
- IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation (effective for annual period beginning on or after 1 January 2009)

The adoption of these standards and interpretations and certain other amendments to existing standards with varied effective dates made by International Accounting Standards Board as part of its first annual improvements project are not expected to have any material impact on the financial statements.

36. COMPARATIVES

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