

FBR CAPITAL MARKETS INTERNATIONAL LTD
(FORMERLY FRIEDMAN, BILLINGS, RAMSEY INTERNATIONAL,
LTD)

REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2009

Registered number 3210633



**FBR CAPITAL MARKETS INTERNATIONAL LTD
(FORMERLY FRIEDMAN, BILLINGS, RAMSEY INTERNATIONAL,
LTD)**

Directors and advisers

Directors

J Billings
T Burns (CEO)
M Culhane (Non-Executive)
W Gmivan
A Griffith
R Hendrix
J Kleeblatt
J Neuhauser
P Steel

Company secretary

A Nightingale

Registered office and business address

8th Floor
Berkeley Square House
Berkeley Square
London
W1J 6DB

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Hay's Galleria
1 Hay's Lane
London
SE1 2RD

Principal bankers

NatWest Bank
City of London Office
1 Princes Street
London
EC2R 8PA

Legal Advisers

Sidley Austin LLP
Woolgate Exchange
25 Basinghall Street
London
EC2V 5HA

**FBR CAPITAL MARKETS INTERNATIONAL LTD
(FORMERLY FRIEDMAN, BILLINGS, RAMSEY INTERNATIONAL,
LTD)**

Report and financial statements

Year ended 31 December 2009

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FBR CAPITAL MARKETS INTERNATIONAL LTD (FORMERLY FRIEDMAN, BILLINGS, RAMSEY INTERNATIONAL, LTD)

Directors' report Year ended 31 December 2009

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2009

Principal activities

The Company is engaged in the provision of agency and principal securities trading activities and corporate finance services. The Company is authorised by the United Kingdom Financial Services Authority (FSA)

The functional currency of the Company is US Dollars because the majority of its income, assets, liabilities and share capital are denominated in US Dollars

Business review and key performance indicators

The Company is a wholly owned subsidiary undertaking of FBR Capital Markets Holdings Inc, a SEC registered company in the USA

For the year ended 31 December, 2009 turnover was down by 35% to \$12,193k (2008 \$18,837k), administrative expenses were down by 42% to \$18,739k (2008 \$32,091k), resulting in a decrease in the operating result before interest of 49% to a loss of (\$6,546k) (2008 loss of \$12,816k). There was an upturn on Primary broking, which has increased by 617% to \$1,227k (2008 \$199k) but this was more than offset by a decline in secondary revenue from \$18,117k to \$10,152k

In 2009, the Company decided to set up a European Research team, which carries out fundamental analysis of the European banking sector, covering the UK, Italy, France, Germany, Switzerland and Austria. It currently provides research on the major Investment Banks, the large-capital international banks and the mid-capital domestic orientated banks

The total permanent employees as at 31 December, 2009 were 36 (2008 26). Severance costs of \$245k (2008 \$892k) are included in the 2009 operating results

Principal risk and uncertainties

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events. To monitor and control operating risk, the Company maintains a comprehensive control framework designed to provide a sound and well-controlled operational environment

Financial risk management

Risk management is an inherent part of the Company's operations

The Company's risk management framework is intended to provide comprehensive controls and ongoing management of its major risks

An overview of the key aspects of risk management and use of financial instruments is provided below

Liquidity risk

Liquidity risk arises from the general funding needs of the Company's activities and in the management of its assets and liabilities. The Company's funding needs are provided by the cash generated from its operations and the capital injections provided by the parent. When additional funding is needed, this is provided by FBR Capital Markets Holdings Inc

FBR CAPITAL MARKETS INTERNATIONAL LTD (FORMERLY FRIEDMAN, BILLINGS, RAMSEY INTERNATIONAL, LTD)

Directors' report Year ended 31 December 2009

Financial risk management (continued)

Credit risk

The Company has significant credit risk exposures to its banks and settlement agent. The Company's banking relationships are with major financial institutions, and their credit terms are reviewed on a continuing basis. The credit risk to the customers is managed by monitoring credit ratings and accounting opening procedures.

Market risk

Market risk represents the potential loss in value of equity portfolios and other financial instruments caused by adverse movements in market variables such as interest and foreign exchange rates and credit spreads. The turnover of the Company is denominated in the reporting currency. The operating expenses are substantially in sterling and settled promptly through the sterling bank account. Equity portfolios at 31 December 2009 are not material.

Results and dividends

The loss for the year ended 31 December 2009 was \$6,402k (2008: loss \$12,649k). The directors do not propose a dividend payment (2008: \$nil).

Future developments

The Company will continue to develop its existing business, especially in its European trading and research capabilities in 2010.

Policy and practice on payment of creditors

The Company agrees terms and conditions for its goods and services with suppliers. Payment is made based on these terms and conditions.

Charitable and political donations

Charitable and political donations have not been made as a part of the normal expenditure of the Company in the exercise of its objectives (2008: \$nil).

Pillar 3 disclosures

Basel 2 Pillar 3 disclosures required to be made in accordance with FSA rules are available on request, at the following address: Berkeley Square House, Berkeley Square, London W1J 6DB.

Share capital

During the year the Company received capital injections of \$474,000 in exchange for 474,000 ordinary shares of US\$1 each fully paid issued by the Company (2008: \$13,000,000 for 13,000,000 shares).

In addition, the Company has also received \$5,000,000 of capital reserve, in the form of forgiveness of intercompany debt.

FBR CAPITAL MARKETS INTERNATIONAL LTD (FORMERLY FRIEDMAN, BILLINGS, RAMSEY INTERNATIONAL, LTD)

Directors' report Year ended 31 December 2009

Subsequent events

On 19th of January 2010, the Company changed its name from Friedman, Billings, Ramsey International, Ltd to FBR Capital Markets International Ltd

Directors

The following persons were directors of the Company during the year and up to the date of signing the financial statements

J Billings	J Neuhauser
T Burns	P Steel
M Culhane (Non-Executive)	J Kleeblatt
W Givivan	R Hendrix
A Griffith	

Directors' indemnities

The Company maintains liability insurance for its directors and officers. Following shareholder approval the Company has also provided an indemnity for its directors, insuring up to £5m per claim per annum with FirstCity Partnership Limited, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006

FBR CAPITAL MARKETS INTERNATIONAL LTD (FORMERLY FRIEDMAN, BILLINGS, RAMSEY INTERNATIONAL, LTD)

Directors' report Year ended 31 December 2009

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

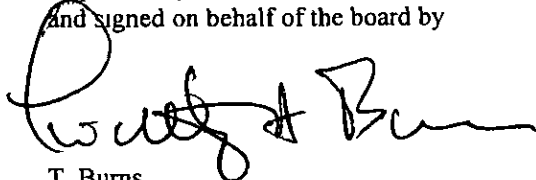
Statement of disclosure of information to auditors

The directors confirm that so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution proposing their reappointment as auditors will be presented at the annual general meeting.

Approved by the board of directors
and signed on behalf of the board by



T Burns
Director
27 April 2010

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FBR CAPITAL MARKETS INTERNATIONAL LTD (FORMERLY FRIEDMAN, BILLINGS, RAMSEY INTERNATIONAL, LTD)

We have audited the financial statements of FBR Capital Markets International Ltd (formerly Friedman, Billings, Ramsey International, Ltd) for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

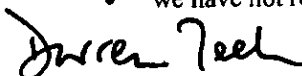
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Darren Meek (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

30 April 2010

FBR CAPITAL MARKETS INTERNATIONAL LTD
(FORMERLY FRIEDMAN, BILLINGS, RAMSEY INTERNATIONAL,
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Profit and loss account
Year ended 31 December 2009

	Note	2009 US \$'000	2008 US \$'000
Turnover	2	12,193	18,837
Administrative expenses		(18,739)	(32,091)
Exceptional item – profit on disposal of investments		-	438
Operating loss	4	(6,546)	(12,816)
Interest receivable and similar income	5	40	109
Interest payable and similar charges	6	(1)	(25)
Loss on ordinary activities before taxation		(6,507)	(12,732)
Tax on loss on ordinary activities	7	105	83
Loss for the financial year	14	(6,402)	(12,649)

There is no difference between the loss on ordinary activities before taxation and the loss for the financial year, as stated above, and their historical cost equivalents

The Company has no recognised gains or losses other than those dealt with in the profit and loss account

All the Company's activities are continuing activities

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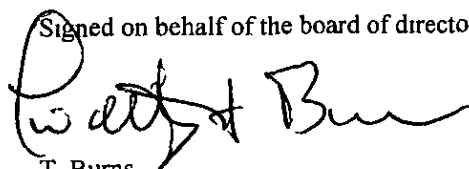
Balance sheet as at 31 December 2009

	Note	2009 US \$'000	2008 US \$'000
Fixed assets			
Tangible assets	8	1,663	2,196
Current assets			
Debtors	9	3,366	2,891
Investments	10	-	136
Deferred tax asset	11	201	120
Cash at bank and in hand		4,070	6,881
		<u>7,637</u>	<u>10,028</u>
Creditors amounts falling due within one year	12	<u>(5,809)</u>	<u>(7,805)</u>
Net current assets		1,828	2,223
Total assets less current liabilities		<u>3,491</u>	<u>4,419</u>
Capital and reserves			
Called up share capital	13	20,000	19,526
Capital contribution	14	5,000	-
Profit and loss account	14	<u>(21,509)</u>	<u>(15,107)</u>
Total shareholders' funds	15	<u>3,491</u>	<u>4,419</u>

The notes to the financial statements on pages 8 to 20 form an integral part of these financial statements

These financial statements were approved by the board of directors on 27 April 2010

Signed on behalf of the board of directors


T Burns
Director

FBR CAPITAL MARKETS INTERNATIONAL LTD (FORMERLY FRIEDMAN, BILLINGS, RAMSEY INTERNATIONAL, LTD)

Notes to the financial statements Year ended 31 December 2009

I. Accounting policies

The principal accounting policies applied in the preparation of the financial statements of the Company are set out below

Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The accounting policies described below have been applied consistently throughout the year.

The Company is not required to provide a cash flow statement or details of its related party transactions with wholly owned entities within FBR Capital Markets Corporation under Financial Reporting Standard 1 (Revised 1996) – Cash flow statements and Financial Reporting Standard 8 – Related party disclosures, respectively, as it is a wholly owned subsidiary, and incorporated within the consolidated financial statements of FBR Capital Markets Corporation, whose financial statements are publicly available. The consolidated financial statements of FBR Capital Markets Corporation can be obtained from the address given in note 18.

Going concern

During 2009, the Company's immediate parent, FBR Capital Markets Holdings Inc, injected \$474,000 additional ordinary share capital and \$5,000,000 of equity investment (capital reserve) to ensure that the Company has adequate financial resources to meet its financial obligations.

The ultimate parent undertaking has confirmed its intention and ability to continue to provide ongoing financial support to the Company to enable it to continue to trade and to meet its capital requirements as they fall due. As a result, the directors have deemed it appropriate to prepare the financial statements on a going concern basis.

Corporate finance fees

Corporate finance and advisory fees are recorded as revenue when earned, generally at the time the related services have been rendered and the client is contractually obliged to pay.

Commission income and expense

Commission income and directly related expenses are recorded on a trade date and accruals basis of accounting.

Interest income and expense

Interest income and expense is accounted for on an accruals basis.

Current asset investments

Current asset investments are recorded at the lower of cost and net realisable value. Securities transactions of the Company are recorded on a trade date basis. Amounts written off in respect of any impairment in value are taken to the profit and loss account.

Cash in hand and at bank

Notes and coins and on demand accounts with third parties holding banking licences are classified as cash in hand and at bank. Amounts held in accounts with third parties that do not hold banking licences are classified as trade debtors.

FBR CAPITAL MARKETS INTERNATIONAL LTD (FORMERLY FRIEDMAN, BILLINGS, RAMSEY INTERNATIONAL, LTD)

Notes to the financial statements Year ended 31 December 2009 (Continued)

1. Accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are shown at cost less accumulated depreciation and provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is charged at rates calculated to write off the cost less estimated residual value of fixed assets on a straight line basis over their estimated useful lives as follows:

Computer equipment	- 3 years	Office equipment	- 5 years
Fixtures and fitting	- 5 years	Leasehold improvements	- 10 years (or lease term, if shorter)
Software	- 3 years		

Asset impairment

The net book amounts of fixed assets are reviewed by the directors periodically. Tangible fixed assets are tested for impairment when an event that might affect asset values has occurred. An impairment loss is recognised to the extent that the carrying amount cannot be recovered either by selling the assets or by the discounted future earnings from operating the assets.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is measured on a non-discounted basis.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Capital contribution

The Company recognises the transactions with the shareholders on the basis of the substance of the transactions. Where the parent company has forgiven the intercompany debt by way of making a capital contribution, this is reflected in equity as a transaction with shareholders. The carrying amount of the loan is reclassified to equity with no gain or loss being recognised.

FBR CAPITAL MARKETS INTERNATIONAL LTD (FORMERLY FRIEDMAN, BILLINGS, RAMSEY INTERNATIONAL, LTD)

Notes to the financial statements Year ended 31 December 2009 (Continued)

1. Accounting policies (continued)

Share-based payments

In accordance with FRS 20, the fair value of equity-settled share-based payments to employees is initially determined at the date of the grant and it is not re-measured after the grant date. The fair value of equity-settled awards is expensed in the profit and loss account over the vesting period, based on the Company's best estimate of shares or options that will eventually vest.

Certain benefit arrangements for directors and other employees of the Company involve the grant, by a parent company, of rights related to shares of that parent company. In accordance with UITF 44 regarding the treatment of awards where a parent entity grants rights to its equity instruments to employees of a subsidiary, and such share-based compensation is accounted for as equity-settled in the parent's consolidated financial statements, the Company records an expense for such compensation in accordance with the requirements for equity-settled share-based payments in FRS 20 with a corresponding increase in equity as a capital contribution from the parent, unless payment to the parent is to be made, in which case the amount payable is recorded as intercompany debt.

Foreign currency

Monetary assets and liabilities denominated in foreign currencies at the year-end are translated into US dollars at relevant closing rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are recorded at the rate of exchange at the date of the transactions. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account. The exchange rate at 31 December 2009 to £ sterling was \$1.6121 (2008: \$1.4461).

Pensions

The Company operates a defined contribution pension scheme. The amounts charged to the profit and loss account represent the contributions payable in the year. Any difference between amounts charged to the profit and loss account and contributions paid are shown as either accruals or prepayments in the balance sheet.

2. Turnover

The turnover consists of

	2009 US \$'000	2008 US \$'000
Primary broking revenue	1,227	199
Secondary broking revenue	10,152	18,117
Service charge revenue	814	71
Corporate finance advisory fees	-	450
	12,193	18,837

Secondary broking revenue comprises of \$814,000 originated in the US. The remaining revenue in all other categories above is generated in the European region.

FBR CAPITAL MARKETS INTERNATIONAL LTD
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Notes to the financial statements
Year ended 31 December 2009 (Continued)

3. Staff costs, directors' remuneration and employee numbers

The average monthly number of employees employed by the Company during the year was 33 (2008 44) This number is made up of 11 in Administration, 3 in Research and 19 in the Sales department The administration number also includes 1 director employed during 2009

The costs incurred during the year in respect of staff (including directors) were as follows

	2009	2008
	US \$'000	US \$'000
Wages and salaries	4,306	4,962
Commissions payable	3,058	6,330
Staff bonus	702	579
Social security costs	827	1,271
Severance	245	892
Expatriate expense	718	2,184
Pensions	134	201
Other	272	443
	<u>10,262</u>	<u>16,862</u>

Wages and salaries include \$571,559 (2008 \$875,837) in respect of the Company's share of the costs related to the Employee Options and Restricted Stock Schemes operated by the FBR Capital Markets Corporation and FBR Group Details of those compensation costs have been disclosed in Note 17 The recharge in all years has been payable through the intra-group accounts

No amounts were payable or prepaid in respect of the defined benefit contribution scheme at 31 December 2009 (2008 \$nil)

Directors' emoluments

	2009	2008
	US \$'000	US \$'000
Aggregate directors' emoluments	1,989	4,247
The emoluments of the highest paid director are as follows		
Total emoluments	1,946	2,953

No directors are accruing retirement benefits under pension schemes provided by the Company and those for whom pension contributions are made by the Company is none (2008 none)

During the year, none of the directors exercised any options (2008 nil) held through participation in the FBR Capital Markets Corporation and or the FBR Group stock related incentive plans

FBR CAPITAL MARKETS INTERNATIONAL LTD
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Notes to the financial statements
Year ended 31 December 2009 (Continued)

4 Operating loss

	2009	2008
	US \$'000	US \$'000
Operating loss is arrived at after charging/ (crediting)		
Auditors' remuneration - audit	155	162
Depreciation - owned assets	568	578
Operating leases - land and buildings	324	553
- office equipment	28	44
Foreign exchange gain / (loss)	123	(21)
Service recharge from other group undertakings	1,147	3,068

5. Interest receivable and similar income

	2009	2008
	US \$'000	US \$'000
Bank and other interest receivable	40	109

6. Interest payable and similar charges

	2009	2008
	US \$'000	US \$'000
Bank and other interest payable	1	25

7. Tax on loss on ordinary activities

	2009	2008
	US \$'000	US \$'000
Current tax:		
UK corporation tax on loss of the year	-	-
Adjustment in respect of previous years	(24)	-
Total current tax	(24)	-
Deferred tax:		
Origination and reversal of timing differences	(78)	(54)
Adjustment in respect of previous years	(3)	(29)
Total deferred tax (note 11)	(81)	(83)
Tax on loss on ordinary activities	(105)	(83)

FBR CAPITAL MARKETS INTERNATIONAL LTD
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Notes to the financial statements
Year ended 31 December 2009 (Continued)

7. Tax on loss on ordinary activities (Continued)

The effective tax rate for the year is 2% (2008 1%) and the standard rate of corporation tax in the UK is 28% (2008 28.5%). The differences are explained below

	2009 US \$'000	2008 US \$'000
Loss on ordinary activities before taxation	(6,507)	(12,732)
Loss multiplied by the standard rate of corporation tax in the UK of 28% (2008 28.5%)	(1,822)	(3,629)
Effects of		
- Net impact of disposal of Volvere shares	-	(43)
- Expenses not deductible for tax purposes	90	151
- Depreciation in excess of capital allowances	73	61
- Losses carried forward	1,502	3,229
- Share schemes costs not deductible for tax purposes	157	231
- Adjustment to tax charge in respect of previous years	(24)	-
Current tax credit for the year	(24)	-

There are no known factors that could potentially impact the current year or the next year taxation

8 Tangible assets

	Computer equipment US \$'000	Office equipment US \$'000	Fixtures and fittings US \$'000	Leasehold improve- ments US \$'000	Software US \$'000	Total US \$'000
Cost						
At 1 January 2009	480	769	457	2,307	257	4,270
Additions	35	-	-	-	-	35
At 31 December 2009	515	769	457	2,307	257	4,305
Accumulated depreciation						
At 1 January 2009	369	591	245	772	97	2,074
Charge for year	76	79	91	236	86	568
At 31 December 2009	445	670	336	1,008	183	2,642
Net book value						
At 31 December 2009	70	99	121	1,299	74	1,663
At 31 December 2008	111	178	212	1,535	160	2,196

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Notes to the financial statements
Year ended 31 December 2009 (Continued)

9. Debtors

	2009 US \$'000	2008 US \$'000
Trade debtors	2,718	1,622
Value added tax recoverable	100	138
Corporation tax recoverable	24	507
Prepayments	365	417
Accrued income	159	207
	<u>3,366</u>	<u>2,891</u>

Trade debtors reflect amounts held in accounts with the Company's client broker and include \$1,266,740 (2008 \$1,263,908) representing amounts held in notice accounts with third parties

10. Current asset investments

The Company acts as market maker for Thunderbird Resort, a Company incorporated in the United Kingdom and listed on the Euronext, and hold a position of \$nil (2008 \$136k) The fair value of current assets investments was not materially different from the carrying value in 2008

11. Deferred tax

	2009 US \$'000	2008 US \$'000
As at 1 January	120	37
Credited to the profit and loss account	81	83
As at 31 December	<u>201</u>	<u>120</u>

The recognised deferred tax asset is mainly represented by the tax benefit of future deductible expenses of \$160k (2008 \$118k) and capital allowances in excess of depreciation of (\$42k) (2008 (\$8k)) A full valuation allowance of \$5,947k (2008 \$4,884k) has been established against additional deferred tax assets related to tax losses, the future benefit of which is uncertain

FBR CAPITAL MARKETS INTERNATIONAL LTD
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LTD)

Notes to the financial statements
Year ended 31 December 2009 (Continued)

12 Creditors: amounts falling due within one year

	2009 US \$'000	2008 US \$'000
Trade creditors	51	274
Amounts owed to group undertakings	3,718	5,392
Social security	-	245
Accrued expenses	2,040	1,894
	<u>5,809</u>	<u>7,805</u>

Amounts owed to group undertakings are unsecured, interest free and repayable on demand

13. Called up share capital

	2009 US \$'000	2008 US \$'000
Authorised		
20,000,000 ordinary shares of US\$1 each	<u>20,000</u>	<u>20,000</u>
	20,000	20,000
Allotted and fully paid		
20,000,000 ordinary shares of US\$1 each	<u>20,000</u>	<u>19,526</u>
	20,000	19,526

During the year 474,000 ordinary shares were issued for cash. The nominal value of these shares was US\$ 1 and the consideration received was \$474,000

14. Reserves

	Profit and loss account US \$'000	Capital contribution reserve US \$'000
At 1 January 2009	(15,107)	-
Intercompany debt forgiven as capital contribution	-	5,000
Loss for the financial year	(6,402)	-
At 31 December 2009	<u>(21,509)</u>	<u>5,000</u>

During the year, FBR Capital Markets Corporation, the parent of the Company, made a capital contribution of \$5,000,000 by forgiving the intercompany debt. This was recognised as equity investment in line with the substance of the transaction.

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LTD)

Notes to the financial statements
Year ended 31 December 2009 (Continued)

15. Reconciliation of movements in shareholders' funds

	2009 US \$'000	2008 US \$'000
Opening shareholders' funds	4,419	4,068
Issue of ordinary share capital (note 13)	474	13,000
Capital contribution	5,000	-
Loss for the financial year	(6,402)	(12,649)
Closing shareholders' funds	3,491	4,419

16. Financial commitments

Annual commitments under operating leases

	2009			2008		
	Land and buildings	Office equipment	Total	Land and buildings	Office equipment	Total
	US \$'000	US \$'000	US \$'000	US \$'000	US \$'000	US \$'000
Annual commitments under non cancellable operating leases expiring						
- between two and five years	488	27	515	615	42	657
	488	27	515	615	42	657

17. Stock compensation plans

FBR Capital Markets Corporation 2006 Long-Term Incentive Plan (FBR Capital Markets Long-Term Incentive Plan)

The Company participates in the FBR Capital Markets Long-Term Incentive Plan. Options and restricted FBR Capital Markets Corporation ("FBR CMC") shares or units granted by FBR CMC to the Company's employees under the FBR Capital Markets Long-Term Incentive Plan affect the Company's compensation expense, but do not affect amounts associated with the Company's equity capitalisation.

Under the FBR Capital Markets Long-Term Incentive Plan, as amended, FBR CMC may grant options to purchase stock, stock appreciation rights, performance awards, restricted and unrestricted stock and Restricted Stock Units ("RSUs") for up to an aggregate of 22,069,985 shares of common stock, subject to increase under certain provisions of the plan, to eligible participants. Participants include employees, officers and directors of FBR CMC and its subsidiaries. The FBR Capital Markets Long-Term Incentive Plan has a term of 10 years and options granted may have an exercise period of up to 10 years. Options may be incentive stock options, as defined by Section 422 of the Internal Revenue Code, or nonqualified stock options.

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Notes to the financial statements
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17. Stock compensation plans (Continued)

FBR CMC grants options to purchase stock, restricted shares of common stock and RSUs to employees of the Company that vest based on meeting specified service conditions of three to five years and in certain cases achievement of specified market conditions. The following table presents compensation expense related to these awards for the year ended

	2009 US \$'000	2008 US \$'000
Stock options	175	186
Restricted shares	134	217
RSUs	262	363

The following table presents the unrecognised compensation related to unvested options to purchase stock, restricted shares of common stock, and RSUs and weighted average vesting period in which the expense will be recognised

	2009		
	Stock Options	Restricted Shares	RSUs
Unrecognised compensation (US \$)	99	169	754
Unvested awards	46,667	28,154	208,252
Weighted average vesting period	4.4 years	2.4 years	3.3 years

Stock options

A reconciliation of option movements over the year to 31 December 2009 is shown below

	Number of shares	Weighted average exercise price US \$	Weighted average remaining contractual life
At 1 January 2009	146,667	13.29	4.2
Granted	20,000	5.93	
At 31 December 2009	166,667	12.41	3.6
Options exercisable as of 31 December 2009	120,000	15.00	2.6

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Notes to the financial statements **Year ended 31 December 2009 (Continued)**

17. Stock compensation plans (Continued)

No share options were forfeited, exercised or expired during the year ended 31 December 2009

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. Due to the relatively short period in which the shares of FBR CMC have been publicly-traded, the volatility assumption has not been based on historical data. A combination of historical volatility, historical industry comparisons, and other market data has been used in order to determine the volatility assumption. The risk-free interest rate is based on the rates of the U.S. Treasury with similar maturities as the expected life of the award. The expected life of the awards is based on the length of time from the grant date to the midpoint of the vesting date and the contractual expiration date of the award.

This methodology for determining expected life has been used as there is no sufficient historical data to estimate an expected life as a majority of the initial stock options issued by the Company since its inception became exercisable in the current year. The dividend yield is based on the expected dividend payout over the expected life of the award.

The following weighted average assumptions used for options granted for the periods indicated

	31 December 2009
Volatility	56.8%
Risk-free interest rate	2.86%
Expected life	5.5 years
Dividend yield	-

The weighted average fair value of the share options granted during the year amounted to \$5.93

Restricted shares

A reconciliation of unvested restricted stock awards as of December 31, 2009, and movements during the year ended December 31, 2009 are presented below

	Number of shares	Weighted average fair value at grant date US \$	Weighted average remaining contractual life
At 1 January 2009	29,964	16.96	3.4
Granted	-	-	
Vested	(911)	16.38	
Forfeited	(899)	17.00	
At 31 December 2009	<u>28,154</u>	16.98	2.4

The fair value of these restricted shares is based on the observable market value of the shares of FBR CMC on the date of grant.

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Year ended 31 December 2009 (Continued)

17. Stock compensation plans (Continued)

RSUs

A reconciliation of unvested restricted stock awards as of December 31, 2009, and movements during the year ended December 31, 2009 are presented below

	Number of shares	Weighted average fair value at grant date US \$	Weighted average remaining contractual life
At 1 January 2009	203,791	5 88	4 4
Granted	4,461	3 26	
Vested	(1,523)	5 68	
Forfeited	(23,477)	5 68	
At 31 December 2009	<u>208,252</u>	5 82	3 3

The fair value of these restricted shares is based on the observable market value of the shares of FBR CMC on the date of grant

In addition, as part of the Company's satisfaction of incentive compensation earned for past service under the Company's variable compensation programs, employees may receive RSUs in lieu of cash payments. These RSUs are issued to an irrevocable trust and are not returnable to the Company. In settlement of such accrued incentive compensation, the Company granted the following RSUs for the period indicated

	Number of shares	Aggregate fair value at grant date US \$'000
RSUs issued 2009	<u>30,735</u>	<u>111</u>

FBR Group Stock and Annual Incentive Plan (FBR Group Stock Plan)

In prior years the Company also participated in the FBR Group Stock Plan. Similar to the FBR Capital Markets Long-Term Incentive Plan, options and restricted FBR Group shares granted by FBR Group to the Company's employees under the FBR Group Stock Plan affect the Company's compensation expense, but do not affect amounts associated with the Company's equity capitalisation

There were no options or restricted FBR Group shares granted to employees of the Company during the year ended 31 December 2009. For the year ended 31 December 2009, compensation expense for such equity awards granted in prior years was \$nil (2007: \$110,000)

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**Notes to the financial statements
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18 Ultimate parent undertaking and controlling party

The company's immediate parent company is FBR Capital Markets Holdings Inc, a wholly-owned subsidiary of FBR Capital Markets Corporation incorporated in the state of Virginia, USA, which is the ultimate parent undertaking and controlling party of the Company and is the parent of the smallest and largest group to consolidate these financial statements. The consolidated financial statements of this group can be obtained from Potomac Tower, 1001, Nineteenth Street North, Virginia 22209, USA.

There were some changes in the group structure during the year and as a result, Arlington Asset Investment Corp is no longer the ultimate parent undertaking or controlling party of the Company.

19. Subsequent events

On 19th of January 2010, the Company changed name from Friedman, Billings, Ramsey International, Ltd to FBR Capital Markets International Ltd.