

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

**CONSOLIDATED
FINANCIAL STATEMENTS**

30 JUNE 2013



CHAIRMAN'S STATEMENT

In the Name of Allah, the Most Beneficent, the Most Merciful, Prayers and Peace be upon our Prophet Mohammed, His Companions and Relatives.

On behalf of the Board of Directors, I present to you the annual report and consolidated financial statements of Venture Capital Bank (VCBank) for the 18-month period ended 30 June 2013, which reflects the change to our fiscal year-end. I am delighted to report that, with the grace of God, we successfully concluded the strategic realignment of the Bank, and met our key objective of returning to profitability.

Despite continued global economic uncertainty and regional market volatility, VCBank posted a very strong financial performance during this period. Total revenue increased by 485% on an annualised basis to US\$ 43.9 million compared with US\$ 6.7 million for the year 2011; with income from investment banking activities growing 12-fold to US\$ 35 million from US\$ 2.96 million in 2011, representing an annualised growth of almost 8 times. Total expenses decreased by 27% on an annualised basis to US\$ 15.9 million due to cost reduction initiatives and organisational restructuring. As a result, net profit for the period grew significantly to US\$ 21.1 million compared to a loss of US\$ 58.7 million for 2011. This takes into account fair value losses of US\$ 7.3 million and impairment provisions of US\$ 4.1 million, which were booked as a prudent measure in the light of current market conditions.

VCBank continued to maintain a strong capital base, with total assets increasing to US\$ 221.6 million at 30 June 2013 compared with US\$ 198.5 million at 31 December 2011, while continuing to remain unleveraged. Shareholders' equity grew by 8% on an annualised basis to US\$ 200.5 million at the period-end compared with US\$ 179.7 million at end-2011. As at end-June 2013, the Bank's capital adequacy stood at a very robust 47%, considerably higher than the 12 per cent minimum requirement of the Central Bank of Bahrain; while fiduciary assets under management totalled US\$ 925 million compared with US\$ 810 million at the end of 2011.



These excellent results mark a major turnaround in the Bank's financial performance. They reflect the success of measures taken during the period to reduce costs, utilise our assets more effectively, restructure the organisation to improve efficiency and maximise synergies, and refocus our investment activities. They also confirm the validity of the Bank's new strategy and business plan, which aims to generate and sustain profitability, maintain adequate liquidity, and build a solid foundation for providing acceptable returns to our shareholders. This is underlined by our commitment to continuously enhance our corporate governance and risk management framework, in line with international standards and global best practice, and in compliance with the latest regulatory changes introduced by the Central Bank of Bahrain.

In terms of investment activities over the past 18 months, I am pleased to report that the Bank successfully arranged and closed three major new deals, which constitutes a remarkable achievement for a regional investment bank during such a challenging business environment. These significant deals, which confirm the feasibility of our new investment strategy, have further strengthened and diversified our investment portfolio, and reinforced our market reputation for offering clients innovative and attractive investment opportunities.

Looking ahead, we remain cautiously optimistic about the future prospects for VCBank in the short-to-medium term. Benefiting from a supportive Board, a strong management team, a clean portfolio and healthy deal pipeline, and a sound financial position, the Bank, God willing, is well placed to take advantage of market improvements and new business opportunities. The latest growth estimates for Bahrain, the GCC and MENA region in 2013-14 remain encouraging, underlined by strong macro-economic fundamentals. However, given the likelihood of continued global economic and market volatility, and ongoing regional political and social tensions, we must remain mindful that the immediate future could continue to prove both unpredictable and challenging.

During the period, there were a number of changes to the composition of the Board of Directors.



Messrs Ali Mousa Al Mousa, Mohammed bin Sulaiman Abanumay, Ibrahim Hamad Al Babtain and Ajlan Abdulaziz Al Ajlan resigned from the Board; and I take this opportunity to thank them for their valuable contributions during their terms in office. In turn, I welcome Messrs Yasir Mohammed Al Jarullah, Mohammed Abdulrazzaq Alkandari, Mohammed Abdulaziz Al Sarhan and Khalid Abdulaziz Al Mediheem as newly-elected Directors; all of whom bring with them a wealth of experience and expertise that will undoubtedly benefit the Bank.

On behalf of the Board of Directors, I extend my sincere appreciation to His Majesty the King of Bahrain, His Royal Highness the Prime Minister, and His Royal Highness the Crown Prince and First Deputy Prime Minister, for their wise leadership and reform programme, and their encouragement for the Islamic banking sector. My thanks are also due to the Central Bank of Bahrain, Ministry of Industry & Commerce and other Government institutions, for their continued professional advice and support during the period.

I would also like to express my gratitude to our shareholders, clients and business partners for their enduring loyalty and confidence; to our Shari'ah Supervisory Board for their valuable guidance and supervision; and to the Bank's management and staff for their highly-valued dedication and professionalism.

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

Dr. Ghassan Ahmed Al Sulaiman
Chairman of the Board

In the name of Allah the Merciful, the Compassionate

Report of the Shari'ah Supervisory Board for period from 01/01/2012 to 30/06/2013

Praise be to Allah, and peace be upon our Messenger, his family companions and allies.

The Shari'ah Supervisory Board of Venture Capital Bank has reviewed all the business and investments of the Bank in its meetings for the period from 01/01/2012 to 30/06/2013.

It has studied and discussed, with the Bank's management, the financial statements and the income statement for the period from 01/01/2012 to 30/06/2013.

It should be noted that it is the responsibility of the Bank's management to ensure that the Bank is working in compliance with Shari'ah principles, while the responsibility of the Shari'ah Supervisory Board is limited to give an independent opinion based on monitoring the Bank's operations and preparing the report to be submitted to you.

Through continuous reviewing and monitoring of the Bank's business, the Shari'ah Supervisory Board finds that the business, activities, investments and projects made by the Bank are compliant with the principles of Islamic Shari'ah.

The Shari'ah Supervisory Board, represented by its Chairman, has reviewed all investment brochures used by the Bank, and the funds it established. It has ratified that they are Islamic investments, publications and funds.

The Shari'ah Supervisory Board has also reviewed the financial statements, approved by the auditors for the said period, and decided that they are compliant with the principles of Islamic Shari'ah.

The Shari'ah Supervisory Board has calculated the amount of the Zakat payable on each share. The responsibility of payment of Zakat on the shares lies on the shareholders.

Accordingly, as the Shari'ah Supervisory Board issues its report to confirm the legitimacy of the business, investments, funds, and statements of Venture Capital Bank during this year, it commends the Almighty Allah for this success in the business, especially in these difficult financial conditions experienced by most countries of the world in their financial and economic sectors.

Finally, the Shari'ah Supervisory Board acknowledges the efforts of all employees of the Bank in facilitating the work of the Shari'ah Supervisory Board and appreciates their efforts, calling on Allah to help them to get more of His grace and generosity, for He is able to do so.

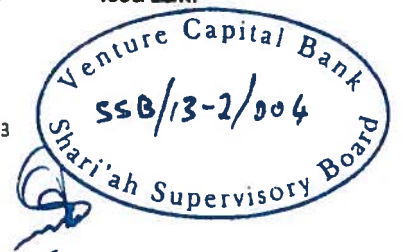
Peace be upon our master, Mohammad, his family and allies.

We praise to Allah the Lord of the worlds.

Abdulsattar Abu Ghodah


Nidham Bin Mohammed Saleh Yaqoobi
Chairman, Shariah Supervisory Board


Issa Zaki



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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Venture Capital Bank B.S.C. (c) ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 30 June 2013, and the consolidated statements of income, comprehensive income, cash flows, changes in equity and changes in off-balance sheet equity of investment account holders for the 18 month period then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Bank's Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

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

Opinion

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 30 June 2013, and its financial performance and cash flows for the 18 month period then ended in accordance with International Financial Reporting Standards and the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain ("CBB") Rule Book (Volume 2), we report that:

- a) the Group has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and
- b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association during the 18 month period ended 30 June 2013 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.



29 July 2013
Manama, Kingdom of Bahrain

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

	Note	30 June 2013 USD '000	31 December 2011 USD '000
ASSETS			
Balances with banks		5,903	3,286
Placements with financial institutions	8	4,720	10,652
Investments	9	131,567	115,694
Investments in associates and joint venture accounted under the equity method	10	25,033	29,474
Investment property	11	9,130	9,130
Receivable from investment banking services	12	13,192	6,550
Funding to project companies	13	12,858	5,839
Other assets	14	9,246	6,933
Property and equipment	15	9,912	10,977
TOTAL ASSETS		221,561	198,535
LIABILITIES			
Islamic financing payable	16	13,011	8,631
Employee accruals		4,109	6,323
Other liabilities	17	3,963	3,865
Total liabilities		21,083	18,819
EQUITY			
Share capital	18	250,000	250,000
Share premium	18	28,429	28,429
Unvested shares of employee share ownership plan		(22,764)	(22,764)
Statutory reserve	18	10,414	10,414
Investment fair value reserve	18	245	628
Employee share ownership plan reserve	18	5,349	5,349
Accumulated losses		(71,195)	(92,340)
Total equity		200,478	179,716
TOTAL LIABILITIES AND EQUITY		221,561	198,535
OFF STATEMENT OF FINANCIAL POSITION ITEMS			
Equity of investment account holders		3,740	16,846



Dr Ghassan Al Sulaiman
Chairman



Abdullatif M. Janahi
Board Member
and Chief Executive Officer

The attached notes 1 to 39 form part of these consolidated financial statements.

Venture Capital Bank B.S.C. (c)
CONSOLIDATED STATEMENT OF INCOME
For the 18 month period ended 30 June 2013

		1 January 2012 to 30 June 2013 USD '000	Year ended 31 December 2011 USD '000
REVENUE			
Income from investment banking services	19	35,053	2,966
Finance income	20	585	574
Dividend income		3,858	358
Rental and other miscellaneous income	21	4,377	2,820
Total revenue		43,873	6,718
OTHER GAINS (LOSSES)			
Fair value losses on investments at fair value through profit or loss - net	22	(7,315)	(15,413)
Other gains on investments - net	23	1,143	906
		37,701	(7,789)
EXPENSES			
Staff costs	24	8,452	8,422
Travel and business development expenses		912	766
Legal and professional fees		1,050	1,435
Finance expense	20	269	75
Depreciation	15	1,887	1,509
Other expenses	26	3,404	2,323
Total expenses		15,974	14,530
PROFIT (LOSS) BEFORE IMPAIRMENT PROVISIONS AND SHARE OF LOSS OF ASSOCIATES AND JOINT VENTURE		21,727	(22,319)
Impairment provisions released / (charged) - net	25	1,230	(35,172)
Share of losses of associates and joint venture, net	10	(1,812)	(1,179)
NET PROFIT (LOSS) FOR THE PERIOD / YEAR		21,145	(58,670)


Dr Ghassan Al Sulaiman
Chairman


Abdullatif M. Janahi
Board Member
and Chief Executive Officer

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 18 month period ended 30 June 2013

	1 January 2012 to 30 June 2013	Year ended 31 December 2011
<i>Note</i>	USD '000	USD '000
PROFIT (LOSS) FOR THE PERIOD / YEAR	21,145	(58,670)
Other comprehensive (loss) income		
Recycling of the gain on sale of available-for-sale investments to the consolidated statement of income	23 (1,124)	(867)
Changes in fair value of available-for-sale investments	741	(734)
Other comprehensive loss for the period / year	(383)	(1,601)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD / YEAR	20,762	(60,271)

The attached notes 1 to 39 form part of these consolidated financial statements.

Venture Capital Bank B.S.C. (c)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 18 month period ended 30 June 2013

	Share capital USD '000	Share premium USD '000	Unvested shares of employee share ownership plan USD '000	Statutory reserve USD '000	Investment fair value reserve USD '000	Employee share ownership plan reserve USD '000	Accumulated losses USD '000	Total USD '000
Balance at 1 January 2012	250,000	28,429	(22,764)	10,414	628	5,349	(92,340)	179,716
Net profit for the period	-	-	-	-	-	-	21,145	21,145
Other comprehensive loss for the period	-	-	-	-	(383)	-	-	(383)
Total comprehensive (loss) income for the period	-	-	-	-	(383)	-	21,145	20,762
Balance at 30 June 2013	250,000	28,429	(22,764)	10,414	245	5,349	(71,195)	200,478
Balance at 1 January 2011	250,000	28,429	(22,764)	10,414	2,229	5,064	(33,670)	239,702
Net loss for the year	-	-	-	-	-	-	(58,670)	(58,670)
Other comprehensive loss for the year	-	-	-	-	(1,601)	-	-	(1,601)
Total comprehensive loss for the year	-	-	-	-	(1,601)	-	(58,670)	(60,271)
Employee share ownership plan vesting charge	-	-	-	-	-	285	-	285
Balance at 31 December 2011	250,000	28,429	(22,764)	10,414	628	5,349	(92,340)	179,716

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 18 month period ended 30 June 2013

	1 January 2012 to 30 June 2013	Year ended 31 December 2011
<i>Note</i>	USD '000	USD '000
OPERATING ACTIVITIES		
Net profit (loss) for the period / year	21,145	(58,670)
Adjustments for non-cash items:		
(Gain) loss on investments	23 (1,124)	(867)
Share of results of associates and joint venture accounted under the equity method	10 1,812	1,179
Employee share ownership plan vesting charge	-	285
Impairments (released) / charged	25 (1,230)	35,172
Depreciation	15 1,887	1,509
Gain on disposal of property and equipment	(100)	-
Dividend income	(3,858)	(358)
Operating profit (loss) before changes in operating assets and liabilities	18,532	(21,750)
Changes in operating assets and liabilities:		
Investments	(11,377)	15,485
Receivable from investment banking services	(6,822)	1,907
Funding to project companies	(4,957)	(6,944)
Other assets	(2,589)	1,804
Employee accruals	(2,214)	538
Other liabilities	98	150
Net cash used in operating activities	(9,329)	(8,810)
INVESTING ACTIVITIES		
Dividends received	2,291	358
Property and equipment - net	15 (657)	(136)
Net cash from investing activities	1,634	222
FINANCING ACTIVITIES		
Islamic financing payables	4,380	8,587
Net cash from financing activities	4,380	8,587
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,315)	(1)
Cash and cash equivalents at beginning of the period / year	13,938	13,939
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD / YEAR	10,623	13,938
Comprising of:		
Balances with banks	5,903	3,286
Placements with financial institutions	8 4,720	10,652
	10,623	13,938

The attached notes 1 to 39 form part of these consolidated financial statements.

Venture Capital Bank B.S.C. (c)
**CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNT
 HOLDERS**

For the 18 month period ended 30 June 2013

2013	Movements during the period				Balance as at 30 June 2013 USD '000
	Balance as at 1 January 2012 USD '000	Investment / withdrawal USD '000	Fair value movement / (impairment) USD '000	Gross income USD '000	
GCC Pre IPO Fund	3,681	(17)	42	34	3,740
VC Bank Investment Projects Mudarabah	13,165	(13,404)	-	257	-
Balance as at 30 June 2013	16,846	(13,421)	42	291	(18)

2011	Movements during the year				Balance as at 31 December 2011 USD '000
	Balance as at 1 January 2011 USD '000	Investment / withdrawal USD '000	Fair value movement / (impairment) USD '000	Gross income USD '000	
GCC Pre IPO Fund	3,878	(266)	(2)	71	3,681
VC Bank Investment Projects Mudarabah	12,341	-	-	886	13,165
Balance as at 31 December 2011	16,219	(266)	(2)	957	(62)

	2013	2011
	USD '000	USD '000
Investment in equities	3,722	3,679
Balances with banks	18	13,167
Total as at 30 June / 31 December	3,740	16,846

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

The VC Bank Investment Projects Mudarabah provides an opportunity for investors to earn attractive returns from providing liquidity financing to selected investment projects from the portfolio of projects promoted by the Group.

The attached notes 1 to 39 form part of these consolidated financial statements.

1 INCORPORATION AND ACTIVITIES

Incorporation

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

Activities

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

Change of reporting period

Following the approval of the Bank's shareholders at an extraordinary general meeting on 25 April 2012 and after obtaining the necessary regulatory approval, the Bank changed its financial reporting period to end as of 30 June. Accordingly, these consolidated financial statements are prepared for the 18 month period ended 30 June 2013. The comparative figures included in the consolidated statements of income, comprehensive income, changes in equity, cash flows and changes in off-balances sheet equity of investment account holders and related explanatory notes cover a period of 12 months and therefore are not necessarily comparable.

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary companies (together, "the Group"). Refer to note 6 for details of the Bank's subsidiaries.

These consolidated financial statements were approved by the Bank's Board of Directors on 29 July 2013.

2 BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements of the the Group have been prepared in accordance with both the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation (AAOIFI) for Islamic Financial Institutions and International Financial Reporting Standards (IFRS) and in conformity with Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives and the terms of the Bank's memorandum and articles of association.

Accounting convention

The consolidated financial statements have been prepared under the historical cost convention as modified for the remeasurement at fair value of investment securities, and are presented in United States Dollars (USD) which is the functional currency of the Group. All values are rounded off to the nearest thousand (USD 000's) unless otherwise indicated.

Basis of consolidation

A subsidiary is an entity that the Group has the power to control so as to obtain economic benefits and therefore excludes those held in a fiduciary capacity. The Group accounted for the consolidation of its subsidiaries based on their results for the 18 month period ended 30 June 2013. The audited financial statements of the subsidiaries are currently prepared using a reporting period ending on 31 December, using consistent accounting policies. However, the reporting period of these subsidiaries is in the process of being made coterminous with the Bank's reporting period.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

All intra-group balances, transactions, income and expenses and profit and losses are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated statements of income and comprehensive income and within equity, separately from the parent shareholders' equity.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the consolidated financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The most significant judgements and estimates are discussed below:

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

Classification of investments

Management decides on acquisition of a financial asset whether it should be classified as "fair value through profit and loss", "available-for-sale" or "held to maturity". The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques, including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Details of estimates and related sensitivity analysis are disclosed in notes 37 and 38.

Impairment on assets carried at amortised cost

Judgement by management is required in the estimation of the amount and timing of future cash flows when determining impairment loss. In estimating these cash flows, the Group makes judgements about the liquidity of the project, evidence of deterioration in the financial health of the project, impacts of delays in execution and the net realisable value of any underlying assets. These estimates are based on assumptions about a number of factors, and actual results may differ, resulting in future changes to the allowance. Each asset is assessed on its merits, and the strategy to recover and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department and approved by the Finance and Investment Committee.

Impairment of available-for-sale investments

The Group records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the investment's fair value compared to cost. The determination of what is 'significant' or 'prolonged' requires judgement and is assessed for each investment separately. In case of quoted equity securities, the Group considers a decline of more than 30% in the fair value below cost to be significant and considers a decline below cost which persists for more than six months as prolonged. In making this judgement, the Group evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

Where fair values are not readily available and the investments are carried at cost, the recoverable amount of such investment is estimated to assess impairment. In making a judgement of impairment, the Group evaluates among other factors, evidence of deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Consolidation of special purpose entities (SPEs)

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

4 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and will become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting. The Group will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 - Consolidated Financial Statements, IAS 27 Separate Financial Statements

The standard becomes effective for annual periods beginning on or after 1 January 2013. It replaces the requirements of IAS 27 *Consolidated and Separate Financial Statements* that address the accounting for consolidated financial statements and SIC 12 *Consolidation – Special Purpose Entities*. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group is currently assessing the impact of adopting IFRS 10.

IFRS 11 - Joint Arrangements

The standard becomes effective for annual periods beginning on or after 1 January 2013. It replaces IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. Because IFRS 11 uses the principle of control in IFRS 10 to define control, the determination of whether joint control exists may change. The adoption of IFRS 11 is not expected to have a significant impact on the accounting treatment of investments currently held by the Group.

4 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 12 - Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 - Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 1 Presentation of Items of Other Comprehensive Income - Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The Bank does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates*, has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

Annual Improvements - May 2012

The following improvements, which are effective for annual periods beginning on or after 1 January 2013, are not expected to have any impact on the Group:

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

4 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES (continued)

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2012:

IFRS 7 Financial instruments: Disclosures (amendment)

The IASB issued an amendment to IFRS 7 on 7 October 2010. The amendment provides enhanced disclosures for transferred financial assets that are derecognised in their entirety and transferred assets that are not derecognised in their entirety. The effective date is for annual periods beginning on or after 1 July 2011.

The amendment has had no effect on the disclosures made by the Group as the Group has not issued these types of instruments.

Improvements to IFRSs

Other amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 12 *Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets; and*
- IFRS 1 *First-Time Adoption of International Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopter.*

5.2 Significant accounting policies

(a) Foreign currency transactions

(i) Functional and presentation currency

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Significant accounting policies (continued)

(a) Foreign currency transactions (continued)

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined and the differences are included in equity as part of the fair value adjustment of the respective items. Fair value differences arising from investments in associates denominated in a foreign currency are taken to "foreign currency translation reserve" forming part of equity.

(iii) Group companies

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

(b) Financial assets and liabilities

(i) Recognition and de-recognition

Financial assets of the Group comprise cash and balances with banks, placements with financial institutions, investments (other than associates and joint venture that are equity accounted), receivable from investment banking services, funding to project companies and other assets. Financial liabilities of the Group comprise Islamic financing payables, employee accruals and other liabilities. All financial assets (except investment securities) and financial liabilities are recognised on the date at which they are originated. Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument.

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

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- (i) the right to receive cash flows from the asset has expired;
- (ii) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- (iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Significant accounting policies (continued)

(b) Financial assets and liabilities (continued)

(ii) Classification of financial assets and liabilities

The Group classifies financial assets under the following IAS 39 categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale financial assets. Except for investment securities, the Group classifies all other financial assets as loans and receivables. All of the financial liabilities of the Group are classified at amortised cost. Management determines the classification of its financial instruments at initial recognition.

(iii) Measurement principles

Financial assets and liabilities are measured either at fair value, amortised cost or in certain cases carried at cost.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analysis and other valuation models with accepted economic methodologies for pricing financial instruments.

Amortised cost

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

(c) Investments

The Group classifies its investments, excluding investment in subsidiaries and equity accounted associates and joint ventures, in the following categories: fair value through profit or loss, held-to-maturity, and available-for-sale.

(i) Classification

Investments carried at fair value through profit or loss are financial assets that are either held for trading or which upon initial recognition are designated as such by the Group.

An investment is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term or part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These include investments in quoted equities.

The Group designates investments as at fair value through profit or loss at inception only when it is managed, evaluated and reported internally on a fair value basis. These include certain private equity investments, including investments in certain associates and joint ventures.

Held-to-maturity investments are investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale. The Group currently does not hold any held-to-maturity investments.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Significant accounting policies (continued)

(c) Investments (continued)

(i) Classification (continued)

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 and are intended to be held for an indefinite period of time and that may be sold in response to need for liquidity or in response to change in market conditions. These include investments in certain quoted and unquoted equity securities.

(ii) Initial recognition

Investments are initially recognised at cost, plus transaction costs for all financial assets not carried at fair value through profit or loss. Transaction costs on investments carried at fair value through profit or loss are expensed in the consolidated statement of income when incurred.

(iii) Subsequent measurement

Subsequent to initial recognition, investments at fair value through profit or loss and available-for-sale investments are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at fair value through profit or loss are recognised in the consolidated statement of income in the period in which they arise. Gains and losses arising from a change in the fair value of available-for-sale investments are recognised in the consolidated statement of comprehensive income and presented in 'Investment fair value reserve' within equity. When available-for-sale investments are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in equity is transferred to the consolidated statement of income. 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.

Held-to-maturity investments are carried at amortised cost less any impairment allowances.

(iv) Fair value measurement principles

The determination of fair value for investments depends on the accounting policy as set out below:

- (i) For investments quoted in an active market, fair value is determined by reference to quoted market prices;
- (ii) For investments in unit funds, fair value is determined based on the latest net asset value provided by the fund manager; and
- (iii) For unquoted investments, where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as expected cash flows, expected scale of activity, EBITDA multiples and discount rates.

For certain investments, the Group uses proprietary models, which usually are developed from recognised valuation models for fair valuation. Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. Valuation adjustments are recorded to allow for bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state the values of these investments.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Significant accounting policies (continued)

(c) Investments (continued)

(v) Impairment of investments

On each reporting date, the Group assesses whether there is objective evidence that investments not carried at fair value through profit or loss are impaired. Impairment is assessed on an individual basis for each investment and is reviewed twice a year.

In case of available-for-sale equity securities carried at fair value, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in recognition of an impairment loss. If any such evidence exists for available-for-sale investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity instruments are not subsequently reversed through the consolidated statement of income.

For available-for-sale investments carried at cost, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

(d) Other financial assets carried at amortised cost

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

(e) Investment in associates accounted under the equity method

The Group's investment in its associates, entities in which the Group has significant influence, are accounted for using the equity method.

Under the equity method, the investment in the associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associates is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associates. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit of associates is shown on the face of the consolidated statement of income. This is the profit attributable to equity holders of the associates and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associates.

The financial statements of the associates are prepared for the reporting period ending on 31 December. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Significant accounting policies (continued)

(e) Investment in associates accounted under the equity method (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in 'Share of loss of associates and joint venture' in the consolidated statement of income.

Upon loss of significant influence over the associate, the Group measures and recognises any remaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the investment and proceeds from disposal is recognised in profit or loss.

(f) Investment in a joint venture accounted under the equity method

The Group has an interest in a joint venture, which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognises its interest in the joint venture using the equity method. The Group presents its aggregate share of profit or loss from the jointly controlled entity accounted under the equity method on the face of the consolidated statement of income in 'Share of loss of associates and joint venture'.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, transactions and unrealised gains and losses on such transactions between the Group and its joint venture. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

Upon loss of joint control, the Group measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in the consolidated statement of income. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate and accounted under the equity method.

(g) Investment property

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the entities in the Group, are classified as investment properties and are accounted for under the cost method net of accumulated depreciation. Investment property comprises freehold land and building.

Properties may be partially occupied by the Group, with the remainder being held for rental income or capital appreciation. If part of the property that is occupied by the Group can be sold separately, the Group accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16 "*Property, Plant and Equipment*", and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40 "*Investment Property*". The portions that require allocation between self-occupied property and investment property are determined based on the relative area of the property.

Investment properties are measured initially at cost, including transaction costs. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated statement of income during the financial period in which they are incurred.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Significant accounting policies (continued)

(h) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash and balances with banks and placements with financial institutions with original maturities of ninety days or less.

(i) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method to write-off the cost of the assets over the following estimated useful lives. Land is not depreciated. Residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Building	40 years
Office equipment	4 years
Furniture and fixtures	5 years
Motor vehicles	4 years

(j) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income. Impairment losses relating to goodwill cannot be reversed in future periods.

(k) Islamic financing payable

Islamic financing payables are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method. Finance expense is recognised in the consolidated statement of income on a time-apportioned basis at the effective profit rate.

(l) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment, when a payment under the guarantee has become probable. The Group only issues financial guarantees to support its development projects and investee entities.

(m) Dividends and Board remuneration

Dividends to shareholders and board remuneration are recognised as liabilities in the period in which they are approved by the shareholders at the Bank's Annual General Meeting.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Significant accounting policies (continued)

(n) Share capital and statutory reserve

Ordinary shares issued by the Bank are classified as equity. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Treasury shares

The amount of consideration paid including all directly attributable costs incurred in connection with the acquisition of the treasury shares are recognised in equity. Consideration received on sale of treasury shares is presented in the financial statements as a change in equity. No gain or loss is recognised on the Group's consolidated statement of income on the sale of treasury shares.

Statutory reserve

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

(o) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The specific recognition criteria described below must also be met before revenue is recognised.

Income from investment banking services

Income from investment banking services comprise income from investment advisory and structuring income, advisory fee, placement and arrangement fee and other fees arising from related activities, as further explained below:

(i) Investment advisory and structuring income

Investment advisory and structuring income is recognised when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Group.

(ii) Fee income

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

(iii) Income from placements with financial institutions

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

Dividend income

Dividend income is recognised when the right to receive payment is established.

(p) Operating leases

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

(q) Off-balance sheet equity of investment account holders

Off-balance sheet equity of investment account holders represent assets acquired using funds provided by holders of restricted investment accounts and managed by the Group as an investment manager based on either a mudaraba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investment account holders. Assets that are held in such capacity are not included as assets of the Group in the consolidated financial statements.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Significant accounting policies (continued)

(r) Employee benefits

(i) Short-term benefits

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

(ii) Post employment benefits

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

Employees are also entitled to leaving indemnities payable based on length of service and final remuneration. Provision for this unfunded commitment, which is a "defined benefit scheme" in nature under IAS 19, has been made by calculating the notional liability had all employees left at the date of the statement of financial position. Any increase or decrease in the benefit obligation is recognised in the consolidated statement of income.

(iii) Share based payment transactions

The Group has established an employee share ownership plan (ESOP) under which employees are entitled to purchase units in the ESOP on a deferred payment basis. Each unit carries the rights to benefits of ownership of one share of the Bank upon completion of a five year service lock-in period. The cost to the Group, representing the fair value of the units offered determined, using the Black-Scholes model, is recognised as an expense in the consolidated statement of income over the vesting period, with corresponding increase in the ESOP reserve recognised as a separate component of the consolidated statement of changes in equity. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share awards that meet the related service conditions at the vesting date.

(s) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the consolidated statement of income net, of any reimbursement.

(t) Segment reporting

The Group primarily operates as an investment bank and its lines of business comprise venture capital, private equity and real estate. At present the Group's revenue is reviewed by lines of business and the expenses and results are reviewed at a Group level and therefore no separate operating segment results and other disclosures are provided in these consolidated financial statements.

(u) Zakah

In the absence of appointment of the Bank to pay Zakah on behalf of the shareholders, the responsibility of payment of Zakah is on individual shareholders of the Group. The Zakah per share amount is presented in note 29.

(v) Offsetting financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the consolidated statement of financial position, if and only if there is a legally enforceable or religious right (based on Shari'ah) to set off the recognised amounts and the Group intends to settle on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the 18 month period ended 30 June 2013

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Significant accounting policies (continued)

(w) Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

6 INVESTMENT IN SUBSIDIARIES

Key subsidiaries of the Group are as follows. There is no change in the percentage holding of the subsidiaries during the year and all of them are wholly owned.

Name of subsidiary	Year of incorporation	Country of incorporation	Principal activities
Gulf Projects Company W.L.L.	1998	Kingdom of Bahrain	To own an interest in and operate the VC Bank Building.
MENA SME Fund Manager Limited	2006	Cayman Island	Fund manager to MENA SME Fund 1 LP.
Lime Restaurant Management and Catering Services Co. W.L.L.	2007	Kingdom of Bahrain	To own, operate and manage restaurant and catering services companies.
The Lounge Serviced Offices Company W.L.L.	2007	Kingdom of Bahrain	To own, operate and manage serviced offices in Bahrain and regionally.
VC Bank ESOP S.P.C.	2008	Kingdom of Bahrain	To hold employee share ownership plan shares on behalf of the employees of the Bank.

7 CLASSIFICATION OF FINANCIAL INSTRUMENTS

The Group's financial instruments have been classified for the purpose of measurement under International Accounting Standard 39: Financial Instruments: Recognition and Measurement as follows:

At 30 June 2013

	<i>Fair value through profit and loss</i> USD '000	<i>Available-for-sale</i> USD '000	<i>Amortised cost / cost</i> USD '000	<i>Total</i> USD '000
ASSETS				
Balances with banks	-	-	5,903	5,903
Placements with financial institutions	-	-	4,720	4,720
Investments	84,559	47,008	-	131,567
Receivable from investment banking services	-	-	13,192	13,192
Funding to project companies	-	-	12,858	12,858
Other assets	-	-	8,978	8,978
TOTAL FINANCIAL ASSETS	84,559	47,008	45,651	177,218
Equity of investment account holders	-	3,722	18	3,740

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the 18 month period ended 30 June 2013

7 CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2011

	<i>Fair value through profit and loss USD '000</i>	<i>Available- for-sale USD '000</i>	<i>Amortised cost / cost USD '000</i>	<i>Total USD '000</i>
ASSETS				
Balances with banks	-	-	3,286	3,286
Placements with financial institutions	-	-	10,652	10,652
Investments	72,175	43,519	-	115,694
Receivable from investment banking services	-	-	6,550	6,550
Funding to project companies	-	-	5,839	5,839
Other assets	-	-	6,760	6,760
TOTAL FINANCIAL ASSETS	72,175	43,519	33,087	148,781
Equity of investment account holders	-	3,679	13,167	16,846

At 30 June 2013, all the financial liabilities of the Group are classified under 'amortised cost'. (2011: all liabilities classified at 'amortised cost'.)

8 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	30 June 2013 USD '000	31 December 2011 USD '000
Short-term placements	4,725	10,694
Less: Deferred profits	(5)	(42)
	4,720	10,652

Short-term placements comprise commodity murabaha and wakala deals entered into for cash management purposes with local banks of good credit standing. These carry annual profit rates ranging between 1.75% and 3.9% (2011: 1.75% and 3.9%) and mature within 90 days of initial placement.

The Group considers the promise made in the Murabaha to the purchase orderer as obligatory.

9 INVESTMENTS

	30 June 2013 USD '000	31 December 2011 USD '000
Investments at fair value through profit or loss		
Quoted equities held for trading	93	107
Unquoted:		
Equities	70,495	58,097
Fund	13,971	13,971
	84,559	72,175
Available-for-sale investments		
Quoted equities	1,577	3,568
Unquoted equities	42,918	36,969
Managed fund - at net asset value	13	242
Short term liquidity certificates	2,500	2,740
	47,008	43,519
	131,567	115,694

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For the 18 month period ended 30 June 2013

9 INVESTMENTS (continued)

Investments include USD 45.43 million of unquoted equities and a managed fund classified as "available for sale" (2011: USD 39.95 million) which are carried at cost less impairment in the absence of reliable measure of fair value. It is not possible to obtain a reliable measure of fair value for these investments due to their illiquid nature and lack of ready saleability.

These investments comprise equities in the following market segments:

	30 June 2013 USD '000	31 December 2011 USD '000
Real estate projects	11,216	11,992
Business development projects	16,192	13,568
Healthcare projects	10,160	10,160
Financial services	3,248	3,717
Shipping	4,101	-
Oil and Gas	514	514
	45,431	39,951

The Group plans to dispose of these investments through trade sales over a 3 to 5 year horizon.

The unquoted equities carried at fair value through profit or loss includes investment in a joint venture that the Group has chosen to carry at fair value using the exemption allowed under IAS 28. Summarised financial information of this joint venture is as follows:

	30 June 2013 USD '000	31 December 2011 USD '000
Total assets	265	67,878
Total liabilities	265	66,410
Total revenues for the period / year	-	-
Total net loss for the period / year	-	(12,124)

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

The Group has the following associates and joint venture as at 30 June:

Name of associate	Nature of business	Country of incorporation	% holding	
			30 June 2013	31 December 2011
Mozon Holding SA	Investment development	Kingdom of Morocco	20	20
German Medical Centre Bahrain	Specialist orthopaedic hospital	Kingdom of Bahrain	30	30
Dari Holdings	Real estate development	Kingdom of Bahrain	43	43
House of Development	Software development	Kingdom of Saudi Arabia	49	49
Venture Capital Fund	Small & medium enterprises investment fund	Kingdom of Bahrain	30	30

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the 18 month period ended 30 June 2013

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

<i>Name of joint venture</i>	<i>Nature of business</i>	<i>Country of incorporation</i>	<i>% holding</i>	
			<i>30 June 2013</i>	<i>31 December 2011</i>
Global Real Estate Co. W.L.L.	Real estate development	Kingdom of Bahrain	50	50
			<i>30 June 2013</i>	<i>31 December 2011</i>
			<i>USD '000</i>	<i>USD '000</i>
The carrying value comprises:				
Associates			4,114	8,010
Joint venture			20,919	21,464
			25,033	29,474

Movements in investments in associates and joint venture accounted under equity method are as follows:

	<i>30 June 2013</i>	<i>31 December 2011</i>
	<i>USD '000</i>	<i>USD '000</i>
At 1 January	29,474	31,677
Redemption / sale of investment	(2,370)	-
Share of losses of associates and joint venture, net	(1,812)	(1,179)
Impairment allowance (note 25)	(259)	(1,024)
At 30 June / 31 December	25,033	29,474

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

	<i>30 June 2013</i>	<i>31 December 2011</i>
	<i>USD '000</i>	<i>USD '000</i>
Total assets	92,152	100,775
Total liabilities	38,823	22,094
Total revenues for the period / year	6,706	4,288
Total net loss for the period / year	(5,805)	(7,884)

11 INVESTMENT PROPERTY

This relates to a land located in the Kingdom of Bahrain. The land is carried at cost. The fair value of the land as at 30 June 2013 is approximately USD 19.81 million (31 December 2011: USD 17.34 million). The fair value as of 30 June 2013 was determined based on the valuation from an independent external valuer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the 18 month period ended 30 June 2013

12 RECEIVABLE FROM INVESTMENT BANKING SERVICES

	30 June 2013 USD '000	31 December 2011 USD '000
Gross receivables	22,893	16,759
Less: Specific impairment provisions	(9,701)	(10,209)
	13,192	6,550

Movement in specific impairment provisions for receivables from investment banking services is as follows:

	30 June 2013 USD '000	31 December 2011 USD '000
At 1 January	10,209	4,829
Reversal	(160)	-
Write-off	(653)	-
Transfer from collective impairment provision	150	-
Charge for the period / year (note 25)	155	5,380
At 30 June / 31 December	9,701	10,209

13 FUNDING TO PROJECT COMPANIES

	30 June 2013 USD '000	31 December 2011 USD '000
Gross funding	40,117	38,406
Less: Specific impairment provisions	(27,259)	(32,567)
	12,858	5,839

These relates to receivables include funding provided to projects and investments promoted by the Group. The financing facilities are generally free of profit and do not have specific terms of repayment, and are expected to be recovered in the course of project development and on realisation of cash flows from sale of the underlying assets and their operations. Impairment allowances have been recorded where necessary to reflect delays and doubts over recoverability based on the Group's regular impairment assessments.

Movement in specific impairment provision for funding to project companies is as follows:

	30 June 2013 USD '000	31 December 2011 USD '000
At 1 January	32,567	10,487
Write-off	(2,597)	-
Transfer out of collective impairment provision to specific provision	(2,534)	-
Transfer from collective impairment provision	1,884	-
Specific impairment charge for the period / year (note 25)	871	12,755
Collective impairment charge for the period / year (note 25)	2,368	9,325
Release of collective impairment provision (note 25)	(5,300)	-
At 30 June / 31 December	27,259	32,567

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the 18 month period ended 30 June 2013

14 OTHER ASSETS

	30 June 2013 USD '000	31 December 2011 USD '000
Advances to acquire investments	6,604	5,227
Project costs recoverable	1,497	1,522
Dividend receivable	1,075	124
Other receivables	1,656	991
Less: Specific impairment provisions	(1,586)	(931)
	<u>9,246</u>	<u>6,933</u>

Movement in specific impairment provisions is as follows:

	30 June 2013 USD '000	31 December 2011 USD '000
At 1 January	931	466
Reversal of Provision	(145)	-
Transfer from collective impairment provision	500	-
Charge for the period / year (note 25)	300	465
At 30 June / 31 December	<u>1,586</u>	<u>931</u>

15 PROPERTY AND EQUIPMENT

	<i>Building</i> USD '000	<i>Office equipment</i> USD '000	<i>Furniture and fixtures</i> USD '000	<i>Motor vehicles</i> USD '000	<i>Total</i> USD '000
Cost					
At 1 January 2012	9,794	1,361	4,857	534	16,546
Additions during the year	304	170	(6)	357	825
Disposal	-	(3)	(10)	(408)	(421)
At 30 June 2013	<u>10,098</u>	<u>1,528</u>	<u>4,841</u>	<u>483</u>	<u>16,950</u>
Depreciation					
At 1 January 2012	573	1,180	3,283	533	5,569
Charge for the year	403	231	1,192	61	1,887
Disposal	-	-	(10)	(408)	(418)
At 30 June 2013	<u>976</u>	<u>1,411</u>	<u>4,465</u>	<u>186</u>	<u>7,038</u>
Net book value at 30 June 2013	<u>9,122</u>	<u>117</u>	<u>376</u>	<u>297</u>	<u>9,912</u>
Net book value at 31 December 2011	9,221	181	1,574	1	10,977

16 ISLAMIC FINANCING PAYABLE

These consist of short-term murabaha and wakala borrowing from local Islamic banks of good credit standing with maturities of not more than one month. These borrowing carry profit rates ranging from 0.75% to 2.85% (2011: 0.75% to 2.85%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the 18 month period ended 30 June 2013

17 OTHER LIABILITIES

	30 June 2013 USD '000	31 December 2011 USD '000
Accounts payable	927	1,371
Provisions and accruals	1,603	1,298
Deferred income	1,294	557
Other	139	639
	3,963	3,865

18 SHARE CAPITAL

	30 June 2013 USD '000	31 December 2011 USD '000
Authorised: 500,000,000 ordinary shares of USD 1 each	500,000	500,000
Issued and fully paid up: 250,000,000 shares of USD 1 each (2011: 250,000,000 shares of USD 1 each)	250,000	250,000

Share premium

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated by the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

Statutory reserve

As required by the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the profit for the year has to be transferred to a statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain. No transfer has been made during the period in view of accumulated losses.

Investment fair value reserve

The unrealised fair value gains or losses from revaluation of available-for-sale investments, if not determined to be impaired, are recorded under the investment revaluation reserve in equity. Upon disposal of such assets, the related cumulative gains or losses are transferred to the consolidated statement of income.

19 INCOME FROM INVESTMENT BANKING SERVICES

	1 January 2012 30 June 2013 USD '000	Year ended 31 December 2011 USD '000
Investment structuring income	28,474	100
Investment management fees	6,399	2,786
Placement and arrangement fees	180	80
	35,053	2,966

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the 18 month period ended 30 June 2013

20 FINANCE INCOME AND EXPENSE

	1 January 2012 to 30 June 2013 USD '000	Year ended 31 December 2011 USD '000
Finance income		
Income from placements with financial institutions	350	429
Income from funding to project companies	235	145
	<u>585</u>	<u>574</u>
Finance expense		
Profit on murabaha	(269)	(75)
Net finance income	<u>316</u>	<u>499</u>

21 RENTAL AND OTHER MISCELLANEOUS INCOME

	1 January 2012 to 30 June 2013 USD '000	Year ended 31 December 2011 USD '000
Rental and property management income	2,647	1,609
Recoveries of impaired receivables	1,703	1,045
Others	27	166
	<u>4,377</u>	<u>2,820</u>

22 FAIR VALUE LOSSES ON INVESTMENTS AT FAIR VALUE

	1 January 2012 30 June 2013 USD '000	Year ended 31 December 2011 USD '000
Trading securities	(15)	(131)
Investments designated at fair value through profit or loss	(7,300)	(15,282)
	<u>(7,315)</u>	<u>(15,413)</u>

Details of gains and losses by type of investments are as follows:

	Trading USD '000	Designated at fair value USD '000	Total USD '000
30 June 2013			
Fair value gains	-	-	-
Fair value losses	(15)	(7,300)	(7,315)
	<u>(15)</u>	<u>(7,300)</u>	<u>(7,315)</u>
		<i>Designated at fair value</i>	<i>Total</i>
31 December 2011	<i>Trading USD '000</i>	<i>USD '000</i>	<i>USD '000</i>
Fair value gains	-	7,589	7,589
Fair value losses	(131)	(22,871)	(23,002)
	<u>(131)</u>	<u>(15,282)</u>	<u>(15,413)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the 18 month period ended 30 June 2013

23 OTHER GAINS ON INVESTMENTS - NET

	1 January 2012 to 30 June 2013 USD '000	Year ended 31 December 2011 USD '000
Gain on sale of available for sale investment	1,124	867
Gain on sale of trading investments	-	21
Other	19	18
	<u>1,143</u>	<u>906</u>

24 STAFF COSTS

	1 January 2012 to 30 June 2013 USD '000	Year ended 31 December 2011 USD '000
Salaries and benefits	7,744	6,756
Social insurance expenses	699	760
Severance costs	-	900
Other staff expenses	9	6
	<u>8,452</u>	<u>8,422</u>

25 IMPAIRMENT PROVISIONS RELEASED / (CHARGED) - NET

	1 January 2012 to 30 June 2013 USD '000	Year ended 31 December 2011 USD '000
Impairment charges against:		
Available for sale investments	(117)	(6,223)
Investment in associates and joint venture (note 10)	(259)	(1,024)
Receivable from investment banking services (note 12)	(155)	(5,380)
Funding to project companies (note 13)	(3,239)	(22,080)
Other assets (note 14)	(300)	(465)
	<u>(4,070)</u>	<u>(35,172)</u>
Release of collective impairment provision	5,300	-
	<u>1,230</u>	<u>(35,172)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the 18 month period ended 30 June 2013

25 IMPAIRMENTS RELEASED / CHARGED (continued)

	<i>Specific impairment provisions</i>						<i>Total</i>	
			<i>Receivable from investment banking services</i>		<i>Funding to project companies</i>	<i>Other assets</i>		<i>Collective impairment provision</i>
	<i>Investments in associates</i>	<i>Investments and JV</i>	<i>(Note 12)</i>	<i>(Note 13)</i>	<i>(Note 14)</i>	<i>(Note 13)</i>		
30 June 2013	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	
Provision at the beginning of the period	30,763	4,442	10,209	23,242	931	9,325	78,912	
Release from collective impairment provision	-	-	-	-	-	(5,300)	(5,300)	
Transfer from collective impairment provision	-	-	150	1,884	500	(2,534)	-	
Reversals	(3,347)	-	(160)	-	(145)	-	(3,652)	
Write-offs	-	-	(653)	(2,597)	-	-	(3,250)	
Transfer from Omran Al Bahrain	1,117	472	-	-	-	-	1,589	
Charge for the period	117	259	155	871	300	2,368	4,070	
Provision at the end of the period	28,650	5,173	9,701	23,400	1,586	3,859	72,369	

	<i>Specific impairment provisions</i>						<i>Total</i>	
			<i>Receivable from investment banking services</i>		<i>Funding to project companies</i>	<i>Other assets</i>		<i>Collective impairment provision</i>
	<i>Investments in Assc.</i>	<i>Investments and JV</i>	<i>(Note 12)</i>	<i>(Note 13)</i>	<i>(Note 14)</i>	<i>(Note 13)</i>		
31 December 2011	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	
Provision at the beginning of the year	27,040	3,418	4,829	10,487	466	-	46,240	
Release from collective impairment provision	-	-	-	-	-	-	-	
Transfer from collective impairment provision	-	-	-	-	-	-	-	
Reversals	(2,500)	-	-	-	-	-	(2,500)	
Charge for the year	6,223	1,024	5,380	12,755	465	9,325	35,172	
Provision at the end of the year	30,763	4,442	10,209	23,242	931	9,325	78,912	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the 18 month period ended 30 June 2013

26 OTHER EXPENSES

	1 January 2012 to 30 June 2013 USD '000	Year ended 31 December 2011 USD '000
Rent and office expenses	2,595	1,698
Publicity, conferences and promotion	182	226
Board of directors and Shari'ah supervisory board	583	347
Other	44	52
	3,404	2,323

27 EMPLOYEE SHARE OWNERSHIP PLAN

On 1 October 2007, the Group set up an employees' share ownership plan (ESOP) under which employees are offered units in the ESOP for purchase at the book value of the equity shares of the Bank determined as on the grant date. Each unit represents the rights to the benefits of one equity share in the Bank and the purchase price of these units is to be paid in instalments over a five year service vesting period upon which the employee will be allotted shares underlying these units. The units carry the rights to the full value of the underlying shares including dividends and participation in bonus rights conditional on completion of the service period and settlement of the cost of the units. In accordance with *IFRS 2 - Share based payments*, the cost to the Bank (being the fair value of units offered at each grant date as determined by an independent firm of consultants using appropriate valuation techniques) is recognised as an expense in the consolidated statement of income over the service vesting period and credited to the ESOP reserve in equity which amounted to USD 5.349 million as at 30 June 2013 (31 December 2011: USD 5.349 million).

The shareholders have authorised issue of up to 24.852 million shares (2011: 24.852 million shares) to the ESOP under this scheme. The Group has incorporated VC Bank ESOP SPC, a special purpose vehicle, to hold the shares for the benefit of the participating employees under the ESOP. The shares issued to the ESOP are treated as treasury shares until they unconditionally vest to the benefit of the employees.

The vesting charge for the current year amounted to USD nil whereas the amounts of writebacks during the year for employees no longer in service amounted to USD 244 thousand (2011: vesting charge of USD 285 thousand and write backs of USD 831 thousand).

Movement in the ESOP units during the period:

The following table illustrates the number and weighted average purchase price (WAPP) of, and movements in ESOP units, during the year:

	30 June 2013		31 December 2011	
	No of units (thousands)	WAPP \$	No of units (thousands)	WAPP \$
Outstanding at 1 January	6,657	1.085	11,375	1.087
Relating to leavers during the year	(1,020)	1.064	(4,718)	1.090
Outstanding at 30 June / 31 December	5,637	1.088	6,657	1.085

Under the ESOP Rules, the Units vest upon completion of the 5 year service period and full payment of purchase price (both conditions to be satisfied). These conditions remained to be satisfied as at 30 June 2013 and, accordingly, no units were exercisable for vesting as at 30 June 2013.

28 RELATED PARTY TRANSACTIONS

Related parties represent shareholders, directors and key management of the Group, and entities controlled, jointly controlled or significantly influenced by such parties.

A significant portion of the Group's income from investment banking services and management fees are from entities over which the Group exercises influence. Although these entities are considered related parties, the Group administers and manages these entities on behalf of its clients, who are mostly third parties and are the economic beneficiaries of the underlying investments.

Venture Capital Bank B.S.C. (c)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the 18 month period ended 30 June 2013

28 RELATED PARTY TRANSACTIONS (continued)

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

	Associates and joint venture USD '000	Key management personnel USD '000	Significant shareholders / entities in which directors are interested USD '000	Assets under management (including special purpose entities) USD '000	Total USD '000
30 June 2013					
Assets					
Balances with banks	-	-	1,080	-	1,080
Placements with financial institutions	-	-	920	-	920
Investments	-	-	46,623	-	46,623
Investments in associates and joint ventures	25,033	-	-	-	25,033
Receivable from investment banking services	34	-	3,800	-	3,834
Funding to project companies	7,314	-	2,794	-	10,108
Other assets	56	-	89	-	145
Liabilities					
Employee accruals	-	1397	-	-	1,397
Payable on acquisition of investment property	-	-	-	-	-
Payables	-	-	-	-	-
Income					
Income from investment banking services	2,344	-	-	-	2,344
Loss on investments	-	-	-	-	-
Share of profit/ (loss) of associates and joint venture accounted for using the equity method	(1,812)	-	-	-	(1,812)
Other income	1,200	-	2,992	-	4,192
Expenses (excluding compensation for key management personnel)					
Impairment allowances against investments	259	-	-	-	259
Impairment allowances against receivables	121	-	637	-	758
Commitments and contingencies					
Commitments and contingencies	824	-	-	-	824
Equity of investment account holders					
Equity of investment account holders	-	-	-	-	-

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28 RELATED PARTY TRANSACTIONS (continued)

	31 December 2011	Associates and joint venture USD '000	Key management personnel USD '000	Significant shareholders / entities in which directors are interested USD '000	Assets under management (including special purpose entities) USD '000	Total USD '000
Assets						
Balances with banks	313	-	321	-	634	
Placements with financial institutions	-	-	3,555	-	3,555	
Investments	-	-	46,623	-	46,623	
Investments in associates and joint ventures	29,474	-	-	-	29,474	
Receivable from investment banking services	372	-	2,853	-	3,225	
Funding to project companies	8,732	-	3,523	-	12,255	
Other assets	270	-	424	-	694	
Liabilities						
Employee accruals	-	2,713	-	-	2,713	
Payable on acquisition of investment property	-	-	-	-	-	
Payables	-	-	-	-	-	
Income						
Income from investment banking services	1,818	-	130	-	1,948	
Loss on investments	(13,572)	-	(3,000)	-	(16,572)	
Share of profit/ (loss) of associates and joint venture accounted for using the equity method	(1,179)	-	-	-	(1,179)	
Other income	-	-	3,028	-	3,028	
Expenses (excluding compensation for key management personnel)						
Impairment allowances on investments	1,024	-	-	-	1,024	
Impairment allowances on receivables	6,085	-	6,086	-	12,171	
Commitments and contingencies						
Equity of investment account holders	435	-	11,831	-	12,266	
	13,165	-	-	-	13,165	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28 RELATED PARTY TRANSACTIONS (continued)

Key management personnel

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

Details of Directors' interests in the Bank's ordinary shares as at the period / year end were:

Categories*

	30 June 2013		31 December 2011	
	Number of Shares	Number of Directors	Number of Shares	Number of Directors
Less than 1%	35,520,848	5	5,928,122	4
1% up to less than 5%	9,393,341	7	3,255,000	1

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

Details of material contracts involving directors include:

	30 June 2013	31 December 2011
	USD '000	USD '000
Directors' participation in investments promoted by the Group	23,909	14,987

The key management personnel compensation is as follows:

	30 June 2013	31 December 2011
	USD '000	USD '000
Board member fees	289	115
Salaries and other short-term benefits	1,859	2,397
	2,148	2,512

Terms and conditions of transactions with related parties

The Group enters into transactions, arrangements and agreements with its related parties in the ordinary course of business at commercial profit rates and fees. The above mentioned transactions and balances arose from the ordinary course of business of the Group. Outstanding balances at the period end are unsecured.

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For the 18 month period ended 30 June 2013

29 ZAKAH

In accordance with the Articles of Association, the Bank is not required to collect or pay Zakah on behalf of its shareholders or its off-balance sheet equity accounts holders and during the period ended 30 June 2013 and the prior period, the Bank did not pay Zakah on behalf of its shareholders. Accordingly, statement of sources and users of Zakah Fund is not presented in the financial statements. However, the Bank is required to calculate and notify individual shareholders of their pro-rata share of Zakah on each share held in the Bank. Zakah payable by the shareholders is computed by the Bank based on the method prescribed by the Bank's Shari'ah Supervisory Board. Zakah payable by the shareholders in respect of each share for the period ended 30 June 2013 is US cents 0.5752 for every share held (2011: US cents 0.0828 for every share held). Investors should be aware that the ultimate responsibility of calculating and paying the Zakah due on them is their sole responsibility.

30 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 (2011: nil).

31 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.

32 SOCIAL RESPONSIBILITY

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

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33 MATURITY PROFILE

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

30 June 2013	No fixed maturity USD '000	Up to 3 months USD '000	3 to 6 months USD '000	6 months to 1 year USD '000	Total up to 1 year USD '000	1 to 3 years USD '000	Over 3 years USD '000	Total USD '000
Assets								
Balances with banks	-	5,903	-	-	5,903	-	-	5,903
Placements with financial institutions	-	4,720	-	-	4,720	-	-	4,720
Investments	129,067	-	-	2,500	2,500	-	-	131,567
Investments in associates and joint venture	25,033	-	-	-	-	-	-	25,033
Investment property	9,130	-	-	-	-	-	-	9,130
Receivable from investment banking services	-	74	2,650	-	2,724	8,933	1,535	13,192
Funding to project companies	-	4,227	-	-	4,227	6,305	2,326	12,858
Other assets	-	6,957	1,267	5	8,229	954	63	9,246
Property and equipment	9,912	-	-	-	-	-	-	9,912
Total assets	173,142	21,881	3,917	2,505	28,303	16,192	3,924	221,561
Liabilities								
Islamic financing payables	-	13,011	-	-	13,011	-	-	13,011
Employee accruals	-	-	-	-	-	-	4,109	4,109
Other liabilities	-	301	1,196	737	2,234	580	1,149	3,963
Total liabilities	-	13,312	1,196	737	15,245	580	5,258	21,083
Net liquidity gap	173,142	8,569	2,721	1,768	13,058	15,612	(1,334)	213,536
Cumulative liquidity gap	173,142	181,711	184,432	186,200	199,258	214,870	213,536	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the 18 month period ended 30 June 2013

33 MATURITY PROFILE (continued)

31 December 2011	No fixed maturity USD '000	Up to 3 months USD '000	3 to 6 months USD '000	6 months to 1 year USD '000	Total up to 1 year USD '000	1 to 3 years USD '000	Over 3 years USD '000	Total USD '000
Assets								
Balances with banks	-	3,286	-	-	3,286	-	-	3,286
Placements with financial institutions	-	10,652	-	-	10,652	-	-	10,652
Investments	112,954	-	-	2,740	2,740	-	-	115,694
Investments in associates and joint venture	29,474	-	-	-	-	-	-	29,474
Investment property	9,130	-	-	-	-	-	-	9,130
Receivable from investment banking services	-	33	763	1,981	2,777	2,238	1,535	6,550
Funding to project companies	-	-	283	4,112	4,395	-	1,444	5,839
Other assets	-	1,791	4,242	675	6,708	137	88	6,933
Property and equipment	10,977	-	-	-	-	-	-	10,977
Total assets	162,535	15,762	5,288	9,508	30,558	2,375	3,067	198,535
Liabilities								
Islamic financing payables	-	8,631	-	-	8,631	-	-	8,631
Employee accruals	-	900	-	-	900	-	5,423	6,323
Other liabilities	19	598	811	1,199	2,608	1,134	104	3,865
Total liabilities	19	10,129	811	1,199	12,139	1,134	5,527	18,819
Net liquidity gap	162,516	5,633	4,477	8,309	18,419	1,241	(2,460)	198,135
Cumulative liquidity gap	162,516	168,149	172,626	180,935	199,354	200,595	198,135	-

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the 18 month period ended 30 June 2013

34 CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND EQUITY OF INVESTMENT ACCOUNT HOLDERS

a) Industry sector	Trading and Manufacturing USD '000	Banks and financial Institutions USD '000	Real estate USD '000	Oil and Gas USD '000	Health care USD '000	Technology USD '000	Shipping USD '000	Other USD '000	Total USD '000
30 June 2013									
Assets									
Balances with banks	-	5,903	-	-	-	-	-	-	5,903
Placements with financial institutions	-	4,720	-	-	-	-	-	-	4,720
Investments	22,371	24,542	13,918	13,048	10,160	1,887	11,329	34,312	131,567
Investment in associates and joint ventures accounted under the equity method	-	1,656	20,919	-	1,066	-	-	1,392	25,033
Investment property	-	-	9,130	-	-	-	-	-	9,130
Receivable from investment banking services	699	2,284	4,184	-	20	-	1,815	4,190	13,192
Funding to project companies	6,609	7	543	-	3,915	1,784	-	-	12,858
Other assets	310	14	801	-	1	17	5,603	2,500	9,246
Property and equipment	-	-	8,723	-	-	-	-	1,189	9,912
Total assets	29,989	39,126	58,218	13,048	15,162	3,688	18,747	43,583	221,561
Liabilities									
Islamic financing payable	-	13,011	-	-	-	-	-	-	13,011
Employee accruals	-	-	-	-	-	-	-	4,109	4,109
Other liabilities	-	-	-	-	-	-	-	3,963	3,963
Total liabilities	-	13,011	-	-	-	-	-	8,072	21,083
Commitments and contingencies	12,098	10,000	14,553	-	-	-	-	-	36,651
Equity of investment account holders	-	3,116	-	-	-	-	-	624	3,740

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the 18 month period ended 30 June 2013

34 CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND EQUITY OF INVESTMENT ACCOUNT HOLDERS (continued)

a) Industry sector (continued)

31 December 2011	Trading and Manufacturing USD '000	Banks and financial Institutions USD '000	Real estate USD '000	Oil and Gas USD '000	Health care USD '000	Technology USD '000	Shipping USD '000	Other USD '000	Total USD '000
Assets									
Balances with banks	-	3,286	-	-	-	-	-	-	3,286
Placements with financial institutions	-	10,652	-	-	-	-	-	-	10,652
Investments	22,622	25,005	12,091	15,295	10,160	1,887	11,728	16,906	115,694
Investment in associates and joint ventures accounted under the equity method	-	4,319	21,723	-	1,673	-	-	1,759	29,474
Investment property	-	-	9,130	-	-	-	-	-	9,130
Receivable from investment banking services	450	1,350	1,536	-	304	-	1,702	1,208	6,550
Funding to project companies	1,120	283	1,443	-	2,993	-	-	-	5,839
Other assets	319	10	96	104	136	13	5,228	1,027	6,933
Property and equipment	-	-	9,188	-	-	-	-	1,789	10,977
Total assets	24,511	44,905	55,207	15,399	15,266	1,900	18,658	22,689	198,535
Liabilities									
Islamic financing payable	-	8,631	-	-	-	-	-	-	8,631
Employee accruals	-	-	-	-	-	-	-	6,323	6,323
Other liabilities	141	23	-	-	-	-	-	3,701	3,865
Total liabilities	141	8,654	-	-	-	-	-	10,024	18,819
Commitments and contingencies	10,513	37,260	15,321	-	-	-	-	-	63,094
Equity of investment account holders	-	3,097	13,165	-	-	-	-	584	16,846

Venture Capital Bank B.S.C. (c)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34 CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND EQUITY OF INVESTMENT ACCOUNT HOLDERS (continued)

(b) Geographic region

The following table shows the assets and liabilities of the Group, classified into geographical regions based on the domicile of the entity for the period / year ended 30 June / 31 December:

30 June 2013

Assets	GCC countries		Other MENA countries		Europe		Cayman / Americas		Global		Total USD '000
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000		
Balances with banks	5,903	-	-	-	-	-	-	-	-	-	5,903
Placement with financial institutions	4,720	-	-	-	-	-	-	-	-	-	4,720
Investments	68,498	50,240	1,500	1,500	-	11,329	-	-	-	-	131,567
Investment in associates and joint venture accounted under the equity method	23,641	1,392	-	-	-	-	-	-	-	-	25,033
Investment property	9,130	-	-	-	-	-	-	-	-	-	9,130
Receivable from investment banking services	3,397	3,087	2,650	2,650	-	1,814	2,244	1,783	-	-	13,192
Funding to project companies	4,466	6,609	-	-	-	-	-	-	-	-	12,858
Other assets	1,536	1,242	789	789	-	5,603	76	-	-	-	9,246
Property and equipment	9,912	-	-	-	-	-	-	-	-	-	9,912
Total assets	131,203	62,570	4,939	4,939	4,103	18,746	-	-	-	-	221,561
Liabilities											
Islamic financing payable	13,011	-	-	-	-	-	-	-	-	-	13,011
Employee accruals	4,109	-	-	-	-	-	-	-	-	-	4,109
Other liabilities	3,963	-	-	-	-	-	-	-	-	-	3,963
Total liabilities	21,083	-	-	-	-	-	-	-	-	-	21,083
Commitments and contingencies	24,553	12,098	-	-	-	-	-	-	-	-	36,651
Equity of investment account holders	3,740	-	-	-	-	-	-	-	-	-	3,740

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the 18 month period ended 30 June 2013

34 CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND EQUITY OF INVESTMENT ACCOUNT HOLDERS (continued)

(b) Geographic region (continued)

31 December 2011

	GCC countries USD '000	Other MENA countries USD '000	Europe USD '000	Cayman / Americas USD '000	Global USD '000	Total USD '000
Assets						
Balances with banks	3,286	-	-	-	-	3,286
Placement with financial institutions	10,652	-	-	-	-	10,652
Investments	66,923	37,043	-	-	11,728	115,694
Investment in associates and joint venture accounted under the equity method	27,716	1,758	-	-	-	29,474
Investment property	9,130	-	-	-	-	9,130
Receivable from investment banking services	3,171	450	-	1,227	1,702	6,550
Funding to project companies	4,719	1,120	-	-	-	5,839
Other assets	1,287	280	50	88	5,228	6,933
Property and equipment	10,977	-	-	-	-	10,977
Total assets	137,861	40,651	50	1,315	18,658	198,535
Liabilities						
Islamic financing payable	8,631	-	-	-	-	8,631
Employee accruals	6,323	-	-	-	-	6,323
Other liabilities	3,865	-	-	-	-	3,865
Total liabilities	18,819	-	-	-	-	18,819
Commitments and contingencies	52,581	10,513	-	-	-	63,094
Equity of investment account holders	16,846	-	-	-	-	16,846

35 FIDUCIARY ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group acting as the custodian of the assets and or making decisions on behalf of such entities in a fiduciary capacity. Assets that are held in such capacity are not included in these consolidated financial statements. At 30 June 2013, the Group had fiduciary assets under management of USD 925 million (31 December 2011: USD 810 million).

36 COMMITMENTS AND CONTINGENCIES

The Group has issued financial guarantees totalling USD 23.97 million (31 December 2011: USD 21.95 million) in respect of a number of its investee companies on which no losses are expected. The Group also had commitments to finance of USD 2.96 million (31 December 2011: USD 3.88 million) and commitments to invest of USD 10.00 million (31 December 2011: USD 37.26 million).

37 RISK MANAGEMENT AND CAPITAL ADEQUACY

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

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

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

a) Credit risk

Credit risk is the risk that the counterparty to a financial instrument does not discharge its obligations on due dates and cause the other party to incur a financial loss. The Group's credit risk arises mainly from the balances with banks, placements with financial institutions, receivable from investment banking services, funding to project companies and certain other assets like advances to acquire investments, project costs recoverable and other receivables.

The Group has put in place policies and procedures for managing credit risks to ensure that risks are accurately assessed, properly approved and regularly monitored. Formal credit limits are applied at counterparty and single obligor level. Overall exposures, including large exposures, are evaluated on a monthly basis to ensure a broad diversification of risk by counterparties and concentration limits by geography and industry.

Credit-related commitments risks

In the course of its business, the Group may extend to its investment project companies guarantees which may require the Group to make payments on their behalf. Such payments are collected from the projects based on the terms of the guarantee. They expose the Group to risks similar to financing contracts and these are mitigated by the same control processes and policies.

Maximum exposure to credit risk

The maximum exposure of credit risk on the financial assets of the Group is the carrying value of the financial assets as at 30 June 2013. The Group does not hold collateral against any of its exposures as at 30 June 2013 (31 December 2011: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the 18 month period ended 30 June 2013

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

a) Credit risk (continued)

Maximum exposure to credit risk (continued)

Past due

The Group's receivables are generally free of profit and do not have specific terms of repayment, but are expected to be recovered in full in the course of project development and on realisation of cash flows from sale of the underlying assets and their operations. The Group does not consider these as past due based on the expected cash flows of the project companies. For expected timelines of recovery of these balances please refer to note 33.

Impaired financial assets

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

Based on the estimates of recovery of these receivables, the Group has made specific impairment provisions of USD 2.9 million (2011: USD 27.9 million) against its receivable exposure during the period.

The gross amount of impaired exposures by class of financial assets is as follows:

	30 June 2013 USD '000	31 December 2011 USD '000
Receivable from investment banking services	15,612	13,814
Funding to project companies	40,117	30,449
Other assets	7,114	1,043
Total	<u>62,843</u>	<u>45,306</u>

b) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group seeks to manage its concentration risk by establishing geographic and industry wise concentration limits. The geographical and industry wise distribution of assets and liabilities are set out in note 34.

At 30 June 2013, the total credit exposure to individual counterparties which comprised 10% or more of the Group's equity was USD 38.01 million relating to one counterparty (31 December 2011: USD 63.4 million relating to three counterparties).

c) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the 18 month period ended 30 June 2013

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

c) Liquidity risk (continued)

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group's expected cash flows on these instruments may vary significantly from this analysis. Refer note 33 for the expected maturity profile of assets and liabilities.

30 June 2013	<i>Gross undiscounted cash flows</i>					<i>Carrying amount</i>
	<i>Up to 3 months</i>	<i>3 to 6 months</i>	<i>6 months to 1 year</i>	<i>1 to 3 years</i>	<i>Over 3 years</i>	
	<i>USD '000</i>	<i>USD '000</i>	<i>USD '000</i>	<i>USD '000</i>	<i>USD '000</i>	
Liabilities						
Islamic financing payables	13,011	-	-	-	-	13,011
Employee accruals	-	-	-	-	4,109	4,109
Other liabilities	301	1,196	737	580	1,149	3,963
Total financial liabilities	13,312	1,196	737	580	5,258	21,083
Commitments and contingencies	250	7,339	1,359	15,605	12,098	36,651
Equity of investment account holders	18	-	-	3,722	-	3,740
31 December 2011	<i>Gross undiscounted cash flows</i>					<i>Carrying amount</i>
	<i>Up to 3 months</i>	<i>3 to 6 months</i>	<i>6 months to 1 year</i>	<i>1 to 3 years</i>	<i>Over 3 years</i>	
	<i>USD '000</i>	<i>USD '000</i>	<i>USD '000</i>	<i>USD '000</i>	<i>USD '000</i>	
Liabilities						
Islamic financing payables	8,631	-	-	-	-	8,631
Employee accruals	900	-	-	-	5,423	6,323
Other liabilities	617	811	1,199	1,134	104	3,865
Total financial liabilities	10,148	811	1,199	1,134	5,527	18,819
Commitments and contingencies	-	9,806	12,708	9,315	31,265	63,094
Equity of investment account holders	2	-	13,165	3,679	-	16,846

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the 18 month period ended 30 June 2013

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

d) Market risk

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

(i) Profit rate risk

Profit rate risk arises due to different timing of re-pricing of the Group's assets and liabilities. The Group's significant financial assets and liabilities sensitive to profit rate are placements with financial institutions, financing receivables and financing payables. The Group's exposure to profit rate risk is limited due to the relatively short-term nature of these assets. Average profit rates on financial instruments were:

	30 June 2013	31 December 2011
Placements with financial institutions	2.27%	2.75%
Islamic financing payables	2.20%	1.60%

Sensitivity analysis

An analysis of the Group's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

	<i>Effect on consolidated statement of income</i>	
	30 June 2013	31 December 2011
	USD '000	USD '000
100 bps parallel increase / (decrease)		
Placements with financial institutions	± 47	± 107
Funding to project companies	± 76	± 207
Islamic financing payables	± 130	± 86

Overall, profit rate risk positions are managed by the Group's Treasury, which uses placements from / with financial institutions to manage the overall position arising from the Group's activities.

(ii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risks on certain financing receivables and investments denominated in Kuwaiti Dinars, Euros and Great Britain Pounds. The Group seeks to manage currency risk by continually monitoring exchange rates and exposures.

The Group had the following significant currency exposures as of 30 June / 31 December:

	30 June 2013	31 December 2011
	USD '000	USD '000
Kuwaiti Dinars	1,590	1,888
Great Britain Pounds	4,938	-
Euro	10	10

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For the 18 month period ended 30 June 2013

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

d) Market risk (continued)

(ii) Currency risk (continued)

The table below indicates the currencies to which the Group had significant exposure at 30 June 2013 and 31 December 2011 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the US Dollar with all other variables held constant on the consolidated statement of income (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity. A negative amount on the table below represents a potential net reduction in the consolidated statements of income or equity, while a positive amount reflects a net potential increase.

	Change in currency rates	30 June 2013		31 December 2011	
		Effect on profit USD '000	Effect on equity USD '000	Effect on profit USD '000	Effect on equity USD '000
Kuwaiti Dinars	+10%	1	158	57	132
Great Britain Pounds	+10%	344	150	-	-
Euro	+10%	1	-	1	-
Kuwaiti Dinars	-10%	(159)	-	(189)	-
Great Britain Pounds	-10%	(494)	-	-	-
Euro	-10%	(1)	-	(1)	-

(iii) Other price risk

The Group's available-for-sale equity investments carried at cost are exposed to risk of changes in equity values. Refer note 3 for significant accounting judgements and estimates 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.

(iv) Equity price risk on quoted equities

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the value of individual companies' shares. The effect on profit and equity, as a result of a change in fair value of trading equity instruments and equity instruments held as available-for-sale, due to a reasonably possible change in equity indices or net asset values, with all other variables held constant, is as follows:

		30 June 2013		31 December 2011	
		Effect on profit USD '000	Effect on equity USD '000	Effect on profit USD '000	Effect on equity USD '000
Trading securities	+1%	1	-	1	-
Available-for-sale	+1%	-	16	-	38
Trading securities	-1%	(1)	-	(1)	-
Available-for-sale	-1%	(16)	-	(13)	(25)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the 18 month period ended 30 June 2013

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

e) Operational risk

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

f) Investment property price risk

Investment property price risk is the risk that the fair value of investment property decreases as a result of downfall in the real estate market. The investment property price risk exposure arises from Group's holding of land. The Group carries its investment in the land at cost less impairment.

g) Capital management

The Bank's regulator, the Central Bank of Bahrain (the CBB) sets and monitors capital requirements for the Group as a whole. The Group is required to comply with the provisions of the Capital Adequacy Module of the CBB (based on the Basel II and IFSB frameworks) in respect of regulatory capital. In implementing current capital requirements, the CBB requires the Group to maintain a prescribed ratio of total capital to risk-weighted assets. The Bank's operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

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

The Group's regulatory capital position as at 30 June / 31 December was as follows:

	30 June 2013 USD '000	31 December 2011 USD '000
Total risk weighted assets	679,863	528,190
Tier 1 capital	323,691	193,924
Tier 2 capital	110	-
Total regulatory capital	323,801	193,924
Total regulatory capital expressed as a percentage of total risk weighted assets	47.63%	36.71%
Minimum requirement	12%	12%

Tier 1 capital comprises share capital, share premium, statutory reserve and retained earnings, gross unrealised gains arising from fair valuing available-for-sale equity securities (subject to 55% haircut), minority interest in consolidated subsidiaries less gross unrealised loss arising from fair valuing equities and 50% of excess over permitted large exposure limit.

Tier 2 capital comprises unrealised gains arising from fair valuing equity securities (subject to 55% haircut) and 50% of excess over permitted large exposure limit. Certain adjustments are made to IFRS and AAOIFI based results and reserves, as prescribed by the CBB.

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

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For the 18 month period ended 30 June 2013

38 FAIR VALUE

Fair value hierarchy

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

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2** – Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- **Level 3** – Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

This hierarchy requires the use of observable market data when available. There have been no transfers between the levels of valuation during the period / year.

	<i>Level 1</i> <i>USD 000</i>	<i>Level 2</i> <i>USD 000</i>	<i>Level 3</i> <i>USD 000</i>	<i>Total</i> <i>USD 000</i>
30 June 2013				
Held for trading	93	-	-	93
Fair value through profit or loss	-	-	84,466	84,466
Available-for-sale	1,577	13	-	1,590
	<u>1,670</u>	<u>13</u>	<u>84,466</u>	<u>86,149</u>
	<i>Level 1</i> <i>USD 000</i>	<i>Level 2</i> <i>USD 000</i>	<i>Level 3</i> <i>USD 000</i>	<i>Total</i> <i>USD 000</i>
31 December 2011				
Held for trading	107	-	-	107
Fair value through profit or loss	-	-	72,068	72,068
Available-for-sale	3,568	242	-	3,810
	<u>3,675</u>	<u>242</u>	<u>72,068</u>	<u>75,985</u>

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value.

	<i>30 June</i> <i>2013</i> <i>USD 000</i>	<i>31 December</i> <i>2011</i> <i>USD 000</i>
Balance at 1 January	76,050	84,913
Fair value losses recognised in the consolidated statement of income - net	(7,300)	(11,301)
Investments acquired during the period / year	15,716	2,438
At 30 June / 31 December	<u>84,466</u>	<u>76,050</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the 18 month period ended 30 June 2013

38 FAIR VALUE (continued)

Determining fair value under Level 3 includes use of valuation techniques such as the discounted cash flow model. The future cash flows have been estimated by the management, based on information and discussion with representatives of the management of the investee companies, and based on the latest available audited and un-audited financial statements. Cash flows have been projected for an initial period of between two to five years and then a terminal value has been estimated using a combination of value based on forward multiples and at a perpetual growth rate of up to 2-6% 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 10.0% – 17.9%. The discount rates have been arrived at after considering the risk free rate, expected market premium, country risk and systematic risk underlying each investee company. The Group has also made use of illiquidity and marketability discount where appropriate.

The potential income effect of a 1% increase in the discount rates, which is a key variable used in the valuation technique, would decrease the fair values by approximately USD 780 thousand (31 December 2011: USD 2,231 thousand), whereas a 1% decrease in the discount rate would increase the fair values by approximately USD 804 thousand (31 December 2011: USD 2,387 thousand). The potential income effect of 0.5 times change, on either side, in the market multiples, which is a key variable used in the valuation technique, would increase the fair values by approximately USD 3,763 thousand (31 December 2011: USD 4,530 thousand) or reduce the fair values by approximately USD 3,763 thousand (31 December 2011: USD 4,530 thousand) respectively.

39 COMPARATIVE FIGURES

In the Group's audited consolidated financial statements for the 18 month period ended 30 June 2013 certain comparative amounts have been reclassified for more meaningful presentation of the consolidated statements of financial position and income which did not result in any changes to the financial position and income for the year ended 31 December 2011.