Harnessing New Opportunities

VENTURE CAPITAL BANK

ANNUAL REPORT
FISCAL YEAR 2014

VENTURE CAPITAL BANK BSC(C)

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بسم الله الرحمن الرحيم

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Venture Capital Bank (VCBank) is the first Islamic investment bank in the GCC and MENA region to specialise in small-to-medium enterprises (SMEs) and venture capital investment opportunities. Incorporated in the Kingdom of Bahrain in October 2005, VCBank operates under an Islamic wholesale banking licence from the Central Bank of Bahrain. With an authorised capital of USD 500 million and paid up capital of USD 190 million, the Bank benefits from the financial backing and support of a prominent group of regional shareholders; an experienced team of industry professionals; and a close-knit network of strategic partners, business associates and allies.

VCBank offers clients a broad array of superior services and unique investment opportunities across a number of promising asset classes in the GCC, MENA, Turkey, and the United Kingdom. The Bank focuses primarily on venture capital and business development, private equity, and selective real estate investment opportunities.

VCBank is uniquely positioned to lead the development of the nascent venture capital industry in the region by providing unmatched levels of support for fundamentally strong and undervalued small-to-medium enterprises (SMEs) that lack the necessary resources for growth and expansion.

VISION

Our vision is to be the leading regional Islamic venture capital-based investment bank, helping to drive business growth, and supporting the social and economic development of the GCC and MENA regions.

We aim to maximise shareholders' value and clients' wealth, and add a new dimension to the Islamic banking industry.

MISSION

Our mission is to create a pioneering business model and take a leadership role in institutionalising investment in the regional venture capital market.

By forging enduring strategic partnerships, we aim to provide support and encouragement for the growth and development of the underserved small-to-medium enterprises (SMEs) sector in the GCC and MENA regions, which lacks the necessary resources for growth and expansion.

VALUES

The values of performance, innovation, client focus, teamwork, and compliance with the rules and principles of Islamic Shari'ah, guide us in our personal and professional behaviour.

Our adoption of international standards and global best practice governs the way we manage the operations of the Bank across all areas of activity.

FINANCIAL HIGHLIGHTS

NET PROFIT (All amounts in USD m)

14.6
12 months ended 30 June 2014

21.1
18 months ended 30 June 2013

OPERATING PROFIT (All amounts in USD m)

16.8
12 months ended 30 June 2014

27.2
18 months ended 30 June 2013

TOTAL ASSETS UNDER MANAGEMENT (All amounts in USD m)

1,240
30 June 2014

1,100
30 June 2013

TOTAL ASSETS (All amounts in USD m)

249.4
30 June 2014

221.6
30 June 2013

CAPITAL ADEQUACY RATIO

43.8%
30 June 2014

47.6%
30 June 2013

TOTAL LIABILITIES (All amounts in USD m)

33.4
30 June 2014

21.1
30 June 2013

OPERATIONAL HIGHLIGHTS

- VCBank partnered with Hanco to acquire Byrne Investment Limited (BIL) in a transaction valued at c. USD 160 million (AED 600 million). BIL is one of the largest and most diversified equipment rental and modular space providers in the GCC.

- In a transaction valued at USD 43.5 million, VCBank is in the process to purchase 10 million square metres of farmland in Turkey, which is one of the largest fruit producers in the world. The farmland will be leased to Goknur, the leading Turkish fruit concentrate company of which VCBank and its investors own 83.5%.

- Goknur continued its expansion plans with the purchase of a further 5 million square metres of farmland for the cultivation of fruit, bringing the Company's total land bank to 10 million square metres. Goknur also commissioned its third production plant at Dinar in Afyon Province.

- Construction of Mayfair Chambers, a GBP 30 million property development housing six luxurious residences in the heart of Central London, has been completed on time. Four apartments have been sold, with the remaining two expected to be sold in the second half of 2014, after which the investment will be fully exited.

- Acquisition of Park Crescent West, an iconic residential development located in one of London's most prestigious residential areas overlooking Regent's Park, has been completed; and an application for planning approval is being submitted to Westminster City Council.

- To support a more formalised approach to implementing the Bank's exit strategy, a new Investments Exit Committee – comprising members of the Board and Management Team – has been established. The committee has identified a number of potential exit candidates.

- Final testing for the implementation of the Bank's new client relationship management (CRM) system is almost finalised. Incorporating highly-sophisticated client profiling, the system will enable VCBank to provide shareholders and investors with a more focused and responsive service.

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, it is my privilege to present the annual report and consolidated financial statements of Venture Capital Bank (VCBank) for the fiscal year ended 30 June 2014. I am delighted to report that with the grace of God, we continued the rebound in the Bank's financial performance. Net profits for the year grew substantially by 84 per cent over the prior twelve months despite continued volatility and uncertainties in the region in general and in the investment banking sector in particular.

Illustrating the Bank's strong financial performance for fiscal year 2014, total revenues increased by 55 per cent to USD 23.7 million compared with USD 15.3 million for the previous year, while total expenses amounted to USD 13.2 million versus USD 10.2 million for 2013. Significantly, income from investment banking activities remained very healthy at USD 16.9 million. As a result, net profit grew substantially by 84 per cent to USD 15.1 million before director's remuneration from USD 8.1 million the previous year, equating to a return on net paid-up capital of 8.3 per cent. These results are after recognising fair value losses and impairment provisions of USD 4.60 million in 2014 (USD 10.1 million for FY 2013), which were booked as a prudent measure in light of prevailing market conditions.

VCBank continued to maintain a strong capital base, with total balance sheet assets increasing by 13 per cent to USD 249.4 million at 30 June 2014 compared with USD 221.6 million at the end of the previous year, with the balance sheet remaining largely unleveraged. Shareholders' equity grew by 8 per cent to USD 216 million from USD 200.5 million at the end of fiscal year 2013. As at end-June 2014, the Bank's capital adequacy ratio stood at a very robust 44 per cent, considerably higher than the 12 per cent minimum requirement of the Central Bank of Bahrain; while total assets under management grew by 8 per cent to USD 1.24 billion compared with USD 1.1 billion at the end of June 2013.

These excellent results reinforce the continuous turnaround in the Bank's financial performance during the past two and a half years. They reflect the success of measures taken during this period to reduce costs, utilise our assets more effectively, and restructure the organisation to improve efficiency and maximise synergies. They also confirm the validity of our refocused strategy, which aims to generate and sustain profitability, maintain adequate liquidity, and build a solid foundation for providing acceptable returns to our shareholders.

Following the extraordinary general meeting held on 9 December 2013, and receipt of regulatory approvals from the Central Bank of Bahrain and the Ministry of Industry and Commerce, the capital structure of VCBank has been revised during the year. Accumulated losses of USD 71.2 million have been cleared against share premium and available reserves, together with a reduction in the share capital to USD 190 million from USD 250 million, in order to achieve a healthier balance sheet. It should be noted that total shareholders' equity remains unchanged, but share capital and other components of equity have been revised to remove the burden of accumulated deficit in line with industry best practice. This is a positive development, since it enhances and supports our investment structuring and financing activities, and will enable the Bank to strengthen dividend distributions in future years.

During the year, the Board and Management convened a special workshop to review and refine VCBank's strategy and business model in line with changing market dynamics. While the core pillars of our strategy remain unchanged, there will be greater emphasis on identifying potential exits from existing investments. The Bank's strategy and business philosophy continues to be underlined by an enduring commitment to ethical banking activities, and strong corporate governance and risk management. This entails the adoption of international standards and global best practice, and compliance with the latest regulatory changes introduced by the Central Bank of Bahrain.

In terms of investment activities, I am pleased to report that we successfully arranged and closed two new deals during the year. VCBank continues to rank among the most active investment banks in the region, with investment placements since January 2012 exceeding USD 485 million. Given the challenging global and regional economic and market conditions during the period, the value of placements constitutes a significant achievement for a MENA-focused investment bank.

The results reflect the success of measures taken during this period to reduce costs, utilise our assets more effectively, and restructure the organisation to improve efficiency and maximise synergies.

Based on our financial and operational performance during fiscal year 2014, and our achievements over the past two and a half years, we remain cautiously optimistic about the future prospects for VCBank. We benefit from a supportive Board and strong Management team, a clean balance sheet and sound financial position, and a strong investment deal pipeline. The Bank is therefore – God willing – well placed to take advantage of economic and market improvements, and capture new business opportunities. The latest economic growth estimates for GCC and MENA in 2015 remain encouraging. Underlined by strong macro-economic fundamentals and stable oil prices, the region is expected to continue its robust GDP growth, with the short-term outlook remaining positive. However, based on past experience, we are fully aware that the immediate future will continue to prove both volatile and challenging for the regional investment banking sector.

On behalf of the Board of Directors, I extend my sincere thanks and 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. Grateful acknowledgements are also due to the Central Bank of Bahrain, the Ministry of Industry and 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

BOARD OF DIRECTORS

Dr. Ghassan Ahmed Al Sulaiman
Chairman
Kingdom of Saudi Arabia

Abdulfatah Mohammed Rafie Marafie
Deputy Chairman
State of Kuwait

Abdullatif Mohamed Janahi
Board Member & Chief Executive Officer
Kingdom of Bahrain

Marwan Ahmad Al Ghurair
Board Member
United Arab Emirates

Saleh Mohammed Al Shanfari
Board Member
Sultanate of Oman

Nedhal Saleh Al Aujan
Board Member
Kingdom of Bahrain

BOARD OF DIRECTORS

Sulaiman Ibrahim Al Hudaithi
Board Member
Kingdom of Saudi Arabia

Abdulhadi Treheeb Al Shahwani
Board Member
State of Qatar

Mohammed Abdulaziz Al Sarhan
Board Member
Kingdom of Saudi Arabia

Mohammed Abdulrazzaq Alkandari
Board Member
State of Kuwait

Yasir Mohammed Al Jarullah
Board Member
Kingdom of Saudi Arabia

Khalid Abdulaziz Al Mediheem
Board Member
Kingdom of Saudi Arabia

Directors' profiles are included in the Corporate Governance Review.

Shaikh Nidham Mohammed Saleh Yaqooby
Chairman

Shaikh Yaqooby holds a Doctorate in Islamic Studies and a BA degree in Economics & Comparative Religion from McGill University, Canada. He has been guided in Traditional Islamic Studies by eminent Islamic scholars from Saudi Arabia, Bahrain, Egypt, Morocco and India. During the 1990s, he was a Khatib in the Kingdom of Bahrain, and since 1976 has taught a range of Islamic topics. Shaikh Yaqooby is a Member of the Shari'ah Supervisory Board of several Islamic banks, and is a Member of the following institutions: Shari'ah Council of the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI), Shari'ah Council of the Islamic Rating Agency, Shari'ah Board of the Central Bank of Bahrain, and the Dow Jones Islamic Index. He is also a regular speaker at Islamic conferences and forums.

Dr. Abdul Sattar Abdul Kareem Abu Ghuddah
Member

Dr. Abu Ghuddah holds a PhD in Shari'ah from the Al-Azhar University, Cairo, Egypt. He is a Member of the Islamic Fiqh Academy, which evolved from the Organisation of Islamic Conference in Jeddah, Kingdom of Saudi Arabia. He previously held the positions of Expert and Reporter for the Islamic Fiqh Encyclopedia, Ministry of Awqaf & Islamic Affairs, State of Kuwait. He is a Member of the Shari'ah Supervisory Board of several Islamic financial institutions, and a Member of the Standards Board and Shari'ah Council of the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI). Dr. Abu Ghuddah is the author of several specialist books in Fiqh & Fatwa of modern Muamalat and publications on different Islamic subjects, and a regular speaker at Islamic conferences and forums.

Dr. Essa Zaki Essa
Member

Dr. Essa holds a PhD in Comparative Fiqh from the Islamic University, Al Madina Al Munawarah, Kingdom of Saudi Arabia. He is an Assistant Professor at the College of Basic Education, Public Authority for Applied Education & Training, State of Kuwait. Dr. Essa is a Member of several Fatwa and Shari'ah Boards and Committees. He is the author of several books and publications on different Islamic subjects, and a regular speaker at Islamic conferences and forums.

OVERCOMING OBSTACLES

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

I am pleased to report that our performance in fiscal year 2014 confirms that VCBank is continuing its positive momentum towards achieving sustainable profitability and strong business growth.

The measures we have taken since late 2011 to transform the Bank in line with changing market dynamics and return to profitability have – with God's help – proved to be successful. They include developing a new corporate strategy and business model; refocusing our investment activities on carefully-selected sectors and geographies; and rationalising costs through a major restructuring of the organisation.

As a result of these measures, VCBank has reported 10 consecutive quarters of profitability. Net profit for fiscal year 2014 increased substantially by 84 per cent to USD 15.1 million before directors' remuneration, while total revenues grew by 55 per cent to USD 23.7 million. Importantly, income from investment banking activities contributed USD 16.9 million, reflecting the success of the Bank's strategic focus on key sectors and geographies in which we have built particular expertise. These include healthcare, agribusiness, oil and gas, and shipping; and the more economically and politically stable markets in MENA, such as Turkey.

During the year, VCBank concluded a number of solid deals which raised a total of USD 65 million from investors. These have strengthened and further diversified our investment portfolio, and boosted our market reputation for attractive and innovative investment offerings. New transactions include Byrne Investment Limited, which is one of the largest and most diversified equipment rental and modular space providers in the GCC. The Bank also is in the process to purchase 10 million square metres of prime farmland in Turkey, which is one of the largest fruit producers in the world. The farmland will be leased to Goknur, the leading Turkish fruit concentrate company in which VCBank and its investors own 83.5 per cent, and will support the planned expansion of this strategic portfolio company.

Regarding existing investments, the Bank's two high-end UK property transactions in London's prestigious W1 residential district made excellent progress during the year. Construction of Mayfair Chambers was completed on time, with four apartments being sold, and the remaining two expected to be sold in early fiscal year 2015; while acquisition of Park Crescent West was finalised, and an application for planning approval is being submitted to Westminster City Council. In addition, construction of the Royal Maternity Hospital in Bahrain is on track, and this transaction was fully placed following the addition of a new strategic investor. Elsewhere, one building of the Jebel Ali Labour Accommodation complex was fully rented, with active interest in the remaining two buildings; and additional new subscriptions were received for the Bank's Liquidity Programme.

It is worth noting that investment placements by VCBank since January 2012 have exceeded USD 485 million. In addition to the two new deals in 2014, these include Goknur in Turkey, QCon in Qatar, Mayfair Chambers and Park Crescent West in the UK; and the Specialist Hospital in Al Khobar, Saudi Arabia; together with the Bank's Liquidity Programme and cash management. This performance, which was achieved against a challenging economic and business backdrop, and intensified competition from other players in MENA, is one of the most successful by a regional investment bank; and reflects the concerted efforts of our high-calibre Investment and Wealth Management teams.

During fiscal year 2014, the Board of Directors and the Management Team conducted their annual review of the Bank's strategy and business model. The primary investment focus will continue to be placed on venture capital and business development-themed transactions and private eqity deals. Real estate investments, which are undertaken on a selective basis, include affordable housing in the GCC, prime residential property in the UK, and income-generating residential and commercial assets in the USA.

The review identified the need for greater emphasis on implementing the Bank's exit strategy. To support a more formalised approach, a new Investments Exit Committee – comprising members of the Board and Management Team – was formed. The committee has identified a number of attractive investment exits that are expected to be concluded during the next fiscal year. In addition, a dedicated post-acquisition monitoring team was established to strengthen the value that the Bank adds to its portfolio companies through providing active participation and support. The new team will monitor progress of the companies against their respective growth strategies and business plans in order to maximise their financial performance and exit value.

Net profit for fiscal year 2014 increased substantially by 84 per cent to USD 15.1 million before directors' remuneration, while total revenues grew by 55 per cent to USD 23.7 million.

Our financial results and operational achievements over the past two and a half years are testimony to the Bank's high standards of performance and the effectiveness of our refocused investment strategy. God willing, we are confident of the Bank's ability to focus its efforts on building upon our continued excellent performance in fiscal year 2014; and successfully adapting and capitalising on changes and opportunities in the market in order take advantage of emerging business opportunities.

VCBank is well-capitalised, with a strong asset base and an active pipeline of investment deals. As such, we are on target to achieve further improvements in revenue growth and reduced operating expenses, in line with our strategic and business objectives. Given the improved outlook for the global economy, and the positive GDP growth forecasts for the GCC and MENA regions, we enter the new fiscal year with renewed confidence and optimism.

In conclusion, I express my sincere thanks and appreciation for the unwavering support and encouragement that we continue to receive from our Board of Directors. I also acknowledge the enduring trust and confidence of our highly-supportive investors, who play a critical role in the ongoing success of VCBank. Special tribute is once again due to our management and staff, without whose commitment and hard work, and their positive attitude towards embracing change and rising to new challenges, such another successful performance by the Bank would not have been possible. We continue to be blessed by having such a dedicated and professional team.

Abdullatif Mohamed Janahi
Board Member & Chief Executive Officer

EXECUTIVE MANAGEMENT

Abdullatif Mohamed Janahi
Board Member & Chief Executive Officer; Chairman of the Executive Management Committee

Faisal A. Aziz Al Abbasi
Chief Investment Officer

Saad Abdulla Al Khan
Executive Director - Investments

Santhosh Jacob Karipat
Executive Director - Financial Control

Najwa Abdulla Mohanna
Executive Director - Operations & Support

Mohamed Jassim Al Shaikh
Executive Director - Head of Wealth Management

Menir Ahmed
Director - Head of Risk Management

Khalid A.Jalil Al Madani
Director - Head of Compliance & MLRO

Management profiles are included in the Corporate Governance Review

DRIVING BUSINESS GROWTH

INVESTMENT STRATEGY

VCBank's investment strategy seeks to generate consistent superior returns with calculated risk from high-quality, rigorously-investigated, efficiently-structured and well-managed investment opportunities. The Bank's investment portfolio is prudently diversified among different markets and sectors, and across different revenue stages of private equity opportunities. This diversified approach aims to reduce the risk of geographic and sector concentration.

The Bank partners with experienced technical / business partners or entrepreneurs who share its vision of building pioneering companies or projects that have the potential for rapid growth, and to be world leaders in their respective industries. VCBank also identifies successful global business models for duplication in the MENA region in order to enhance and diversify regional economies; create employment opportunities; replace imports with local goods and services; and generate increased exports. The Bank adds value to its portfolio companies through active participation and support, in order to maximise the exit value of its investments.

PHILOSOPHY

VCBank's investment philosophy is generally guided by the fundamental premise that it is cash flow and profitability – not 'trophy status' or fashion – which ultimately determines the value of an asset. The Bank considers that rigorous due diligence, the use of conservative assumptions in financial projections, and careful assessment of possible downside scenarios, are the best methods for consistently achieving its objectives.

FOCUS

The primary investment focus for VCBank is private equity deals, followed by an emphasis on venture capital and business development themed transactions. Real estate investments, which are only undertaken on a selective basis, include affordable housing in the GCC, residential property in the UK, and income-generating residential and commercial assets in the USA. Regardless of the investment type, the Bank adopts a consultancy-based analytical approach to thoroughly examine each prospective venture and early-stage business proposal; with an emphasis on customer value, strategic positioning, competitive dynamics, business model sustainability, and management capability.

MARKETS

VCBank seeks investment opportunities on a global basis but with greater emphasis on the MENA region. The investment portfolio is diversified in order to avoid concentration in any particular market. The Bank's core investment markets are GCC countries, while priority markets are Turkey and, on a selective basis, the UK. Opportunistic markets that have the potential to generate interesting deals include the rest of MENA and, very selectively, the Far East, Asia and the West.

SECTORS

VCBank focuses its deal flow efforts on core sectors where its track record, and the cumulative in-depth knowledge of the Investment team and Board members, can be called upon. Core sectors comprise healthcare, agriculture and food, fertilizers and petrochemicals, oil and gas services, liquidity programmes and international real estate. Priority sectors, which demonstrate scope for significant development in the MENA region, have been identified as education and infrastructure. Opportunistic sectors, considered on a case-by-case basis, include regional real estate and other potential high-growth sectors.

EXIT STRATEGY

In evaluating investment opportunities, one of the primary considerations is the potential exit strategy. Accordingly, VCBank focuses on investments in industries that either have significant M&A activity, or where there is an appetite for listing on capital markets. In FY 2014, an Exit Committee was formed, comprising members of the Board and the Management team. The Committee is currently reviewing a number of potential exit candidates, which are expected to be concluded during FY 2015.

FY 2014 INVESTMENT HIGHLIGHTS

BYRNE INVESTMENT LIMITED
UAE, SAUDI ARABIA, OMAN

VCBank partnered with Hanco to acquire Byrne Investment Limited (BIL) in a transaction valued at c. USD 160 million (AED 600 million). Through its well-established brands – Byrne Equipment Rental and Spacemaker – BIL is one of the largest and most diversified equipment rental and modular space providers in the GCC. Hanco (Al Tala'a International Transportation Co) is a Saudi-based leasing, car rental and fleet management company. Established in 1976, Hanco has developed into one of the top three leasing companies in the Kingdom.

TURKEY FARMLAND
TURKEY

In a transaction valued at USD 43.5 million, VCBank is in the process to purchase 10 million square metres of farmland in prime locations in Turkey, which is one of the largest fruit producers in the world. The farmland will be leased to Goknur, the leading Turkish fruit concentrate company of which VCBank and its investors own 83.5%. Goknur will manage the entire process of plantation, harvesting, marketing and sales. Four fruits – apple, pear, peach and sour cherry – have been selected for planting based on household demand, concentrate business suitability and product value.

GOKNUR
TURKEY

The largest fruit juice concentrate and fruit puree producer and exporter in Turkey, Goknur continued its expansion plans with the purchase of a further 5 million square metres of farmland for the cultivation of fruit, bringing the Company's total land bank to 10 million square metres. Goknur also commissioned its third production plant at Dinar in Afyon Province – the largest processing plant of its kind in Europe – and started producing apple and peach puree, and tomato juice.

MAYFAIR CHAMBERS
LONDON W1, UK

Construction of this GBP 30 million property development in the heart of Central London, housing six luxurious residences, has been completed on time. Four apartments have been sold, with the remaining two expected to be sold during the second half of 2014, after which the investment will be fully exited.

PARK CRESCENT WEST
LONDON W1, UK

Acquisition of this iconic residential development, which is located in one of London's most prestigious residential areas overlooking Regent's Park, has been completed; and an application for planning approval is being submitted to Westminster City Council.

ROYAL MATERNITY HOSPITAL
BAHRAIN

With the addition of a new strategic investor, this USD 30.4 million transaction has been fully placed. Project progress of this specialised hospital includes completion of all substructure, superstructure and external block works. In addition, tenders for medical equipment are under evaluation; and proposals have been received for the pre-operations and commissioning stage from medical service providers in the UK and USA.

JEBEL ALI LABOUR ACCOMMODATION
UAE

Market conditions for letting labour accommodation in Dubai have improved significantly, with rental rates rebounding more than 300 per cent from the lows seen during the financial crisis. One building has been fully rented, and efforts are underway to secure reputable tenants for the remaining two buildings. The number of approaches and offers for the project have increased substantially compared with previous years. Management are currently in the final stages of completing the rental of the second building. Following receipt of government approvals - which are expected around the end of this year or the beginning of next year - the third building will be rented.

ITWorx
EGYPT

The Company witnessed a record year in FY 2013 in terms of financial results, business activity and performance of major projects. ITWorx has appointed an international bank to manage the planned sale of the Company.

Note: Full details of these investments are included in the Investment Portfolio Update section of this Investment Review.

INVESTMENT PORTFOLIO UPDATE

PRIVATE EQUITY

BYRNE INVESTMENT LIMITED

In FY 2014, VCBank partnered with Hanco to acquire Byrne Investment Limited (BIL) in a transaction valued at c. USD 160 million (AED 600 million). Through its well-established brands – Byrne Equipment Rental and Spacemaker – BIL is one of the largest and most diversified equipment rental and modular space providers in the GCC. With operations spanning the UAE, Qatar, Saudi Arabia and Oman, Byrne Equipment Rental offers equipment and modular units on hire, as well as ancillary services including logistics, sewage removal, craneage and fuel supply, to a wide range of companies in the construction, oil and gas, marine, events and facilities management sectors. Spacemaker is a leading manufacturer of modular structures in the UAE. With in-house design and engineering capabilities, the Company manufactures custom-built specialised commercial and high-end structures suited to the requirements of various industries including oil and gas, offshore marine, construction and hospitality.

Demand for rental in the GCC is set to increase as companies focus on outsourcing services previously managed in-house, driven by capital allocation and funding restraints. At the same time, demand for power significantly outstrips supply, and this shortfall is expected to increase over the medium - to long-term, on the back of a booming regional population. In addition, the GCC is emerging as a major hub for tourism, sports and international affairs, with a growing calendar of events demanding temporary power equipment and modular structure solutions. Hanco (Al Tala'a International Transportation Co) is a Saudi-based leasing, car rental and fleet management company. Established in 1976, Hanco has developed into one of the top three leasing companies in the Kingdom. Hanco has been consistently recognised by numerous MENA travel awards as "Best Transportation Services Provider in the MENA Region" and is ranked as one of the fastest-growing companies in Saudi Arabia.

TURKEY FARMLAND

In a transaction valued at USD 43.5 million, VCBank is in the process to purchase 10 million square metres of farmland in prime locations across Turkey, during FY 2014. The farmland will be leased to Goknur, the leading Turkish fruit concentrate company in which VCBank and its investors own 83.5 per cent. Through a management and off-take agreement, Goknur will handle the entire process of plantation, harvesting, marketing and sales. Four fruits – apple, pear, peach and sour cherry – have been selected for planting based on household demand, concentrate business suitability and product value. Turkey Farmland has a put option to sell the land to Goknur at the end of the anticipated investment holding period of eight years.

GOKNUR

Established in 1993, Goknur Foods Import Export Trading & Distribution Company is the largest fruit juice concentrate and fruit puree producer and exporter in Turkey, with a 50 per cent market share. It exports to over 60 countries worldwide, with a focus on Europe, USA and Russia; and a client base including leading international brands such as Coca Cola, Pepsi Cola, Sun Top, Hero and Smuckers. VCBank and its investors own 83.5 per cent of the Company. During FY 2014, Goknur continued its expansion plans with the purchase of a further 5 million square metres of farmland for the cultivation of fruit, bringing the Company's total land bank to 10 million square metres. Goknur also commissioned its third production plant at Dinar in Afyon Province – the largest processing plant of its kind in Europe – and started producing apple and peach puree, and tomato juice. Goknur reported an increase in gross revenues and profits for FY 2013, and distributed a cash dividend of 9 per cent and 6.7 per cent in the years 2012 and 2011 respectively.

MENA SHIPCO

This USD 33.5 million shipping capital lease project entails a capital lease through sale and leaseback on a bareboat basis of three one-year-old Supramax 57,000 dwt bulk carriers. The individual price tag of USD 28.3 million of these vessels was below the market value for comparable five-year-old Supramax bulk carriers at the time of the acquisition. All three vessels are employed under a combination of voyage (trip) charters and short-term time charters, with very positive prospects, given the ongoing market recovery. In FY 2014, MENA SHIPCO maintained its dividend distribution at 10 per cent.

MENA SME FUND

Established in 2006, this fund made its last capital call in 2010 and then closed following its investment in QCon, with total capital called of USD 70.3 million. In FY 2014, the Fund made no further capital allocations, but concentrated on monitoring the existing portfolio companies and managing them for growth and possible exits. Total distributions to investors up to FY 2014 amounted to USD 7.9 million. The Fund's portfolio companies are Challenger Limited, JAFCCO, ITWorx and QCon, whose progress is reported separately below.

CHALLENGER LIMITED

Libya-based Challenger is a provider of contract oil and gas land drilling and workover services, operating primarily in the MENA region. Following the unforeseeable events in Libya during 2011, the Company embarked upon a major asset restoration programme in 2012. Challenger's commitment to stay in Libya during the war has proved beneficial. The Company currently has six rigs contracted, with the remaining rigs being negotiated and expected to be deployed during the second half of 2014. In FY 2014, Challenger reported an increase in gross revenues and profits.

JAFCCO

In line with a major 18-month restructuring plan by Jordan Al Abyad Fertilizers & Chemicals Company (JAFCCO), which has been implemented under a newly-appointed CEO, overall operating costs have been reduced by trimming the headcount by 175 employees. Despite achieving revenue growth in FY 2014, JAFCCO reported a net loss due to delays and cost overruns related to the expansion project. The production capacity is expected to reach the breakeven point of 55 per cent by the end of 2014. However, a feasibility study conducted by KPMG points to the strong economic and commercial viability of JAFFCO, fuelled by growing demand for its products by target markets.

ITWORX

ITWorx is one of the largest software outsourcing firms in Egypt, with offices in Saudi Arabia, UAE, Qatar, Europe and the USA. The Company witnessed a record year in FY 2013 in terms of financial results, business activity and performance of major projects. ITWorx has appointed an international bank to manage the sale of the Company. It is planned to spin off the Education business into a separate legal entity based out of Dubai, since this should be more attractive to potential investors willing to pay a higher multiple for this fast-growing and high-margin business. The remaining divisions will be sold at a later date.

QCON

VCBank holds a 28 per cent stake in Qatar Engineering & Construction Company (QCon), a leading engineering, procurement and construction (EPC) contracting company. It specialises in projects and plant maintenance for the oil and gas, petrochemicals, fertilizers, power and other industrial infrastructure sectors in Qatar. Established in 1975, QCon has built a dominant position, and a high reputation for quality and safety, in the niche segments in which it operates. The Company reported a 24 per cent growth in revenues for FY 2013. QCon is set to benefit substantially from contracts worth USD 200 billion to be awarded in the run up to the World Cup in Doha in 2022. The Company is being prepared for an exit in 2015 or early 2016, depending on market conditions.

LEMISSOLER MARITIME COMPANY

Lemissoler operates a fleet of four specialised commercial vessels and container ships employed under a combination of voyage (trip) charters and short-term charters, with very positive prospects, given the ongoing market recovery. The Company's profitability in FY 2014 was affected by a deterioration in the dry bulk sector, with spot earning levels below operating expenses in many cases, resulting in the underperformance of two bulk carrier vessels. Following the scrapping of a number of vessels over the past two years, Lemissoler is in the process of restructuring its loans in order to renew its fleet and take advantage of currently favourable asset prices. In the light of the continued recovery of the shipping industry, the Company is actively seeking to lock in higher long-term charter rates over the next few years.

SVCIC

Saudi Venture Capital Investment Company (SVCIC) is a Saudi-based investment company with a paid-up capital of USD 100 million. SVCIC has approved in April 2014 at an Extraordinary General Meeting to reduce its capital by 33 per cent. Approvals for this reduction are being finalised. The primary focus of SVCIC is to invest in promising small and medium enterprises in the Kingdom. Recent developments include an investment in iMena – an e-commerce and internet start-up holding company based in Jordan. The Company has also partnered with Venture Capital Bank in a high-profile consortium led by the Saudi-based Rassmal Group, for the acquisition and development of an iconic residential development, Park Crescent West, in London, UK. In addition, SVCIC has built a healthy pipeline of potential investment deals.

ITWORX

GOKNUR

QCON

INVESTMENT PORTFOLIO UPDATE

VENTURE CAPITAL

VCBANK LIQUIDITY PROGRAMME

This first-of-its-kind Shariah-compliant short-term liquidity programme completed its third year in FY 2014. Providing a profit rate of between 4 and 6 per cent, the short-term trust certificates of the programme are backed by the prime asset of Venture Capital Bank Building (see entry for Gulf Projects Company).The programme continues to attract steady interest from potential investors, with the majority of current certificate holders being corporates, financial institutions and insurance companies, as well as individual investors.

GERMAN ORTHOPAEDIC HOSPITAL

Since opening in 2010, this specialist hospital has quickly earned a reputation for world-class orthopaedic treatment and surgery in Bahrain and the wider GCC market, especially the Eastern Province of Saudi Arabia and Kuwait. Patients no longer need to travel to Germany for specialist treatment. The Hospital has recorded steady year-on-year revenue growth since its opening in June 2010. Following the success of this project, a similar medical institution is currently under study for development in Riyadh, Saudi Arabia. The German Orthopaedic Hospital serves to illustrate the distinct ability of VCBank to identify a lucrative captive market, with the potential for replication in other GCC countries.


GERMAN ORTHOPAEDIC HOSPITAL

ROYAL MATERNITY HOSPITAL

With the addition of a new strategic investor in FY 2014, this USD 30.4 million transaction has been fully placed. The Royal Maternity Hospital, which is based on a proven international model for 'healthcare and hospitality', will provide world-class basic and advanced healthcare services for women and children. The initial focus of the 22-bed hospital will be on the provision of comprehensive maternity services, extending to prenatal and postnatal care, in addition to gynaecology. Project construction continues to make good progress, including completion of all substructure, superstructure and external block works; while external rendering and electro-mechanical works are underway. In addition, tenders for medical equipment are currently being evaluated; and proposals have been received for the pre-operations and commissioning stage from medical service providers in the UK and USA.

AL KHOBAR SPECIALIST HOSPITAL

VCBank is partnering with Saudi-based Al Othman Holding Company to develop a new 150-bed hospital at Al Khobar in the Kingdom of Saudi Arabia. Covering a total area of 40,000 square metres, the hospital will concentrate on three centres of excellence – women's health, children's health and day surgery – which are in high demand and generate high margins. In addition, specialised clinics will cover diabetes, dermatology, plastic surgery, eye care, cardiology, ENT and orthopaedics. The hospital will focus on the immediate catchment area comprising Dammam, Al Khobar and Dhahran, with a total population of 2.4 million; but will also attract patients from other provinces in the Kingdom.

Healthcare is a highly attractive sector in Saudi Arabia, with excellent growth prospects. These are driven by favourable demographics; the emergence of lifestyle-related diseases such as diabetes, hypertension, obesity and heart problems; the influx of expatriate patients who previously had access to public hospitals; mandatory health insurance coverage for expatriates; and favourable regulatory changes and government incentives for the private sector. This new investment project draws upon VCBank's healthcare experience gained from development of the German Orthopaedic Hospital and Royal Maternity Hospital in Bahrain; and Al Othman's involvement in the 200-bed Al Ahsa Hospital in the Eastern Province of Saudi Arabia.

THE LOUNGE

This specialist serviced offices company, launched in Bahrain in 2008, has made excellent progress, despite difficult market conditions for most of this period. Having managed to retain most of its existing clients, with a current occupancy rate of 90 per cent, revenues have remained steady. The Lounge illustrates the venture capital approach of VCBank in successfully seeding a new concept in Bahrain, and then replicating it elsewhere in the MENA region (see entry for Mozon - Morocco).

GLOREI

The Global Omani Development & Investment Company (GLOREI) provides VCBank with an investment platform for opportunities in Oman. The Company has successfully executed deals in the hospitality and logistics sectors, as well as certain sub-sectors of real estate, such as serviced offices. Key developments include the leasing of the majority of space at Maktabi Watayah property; the planned completion of the Shaza Muscat Hotel by the end of 2014; appointment as development manager for the Muttawar Omani Company project; completion of the master plan for the Smart Logistics project; and achieving occupancy levels of 80 per cent at the ILS Oman project.

BAYAN REAL ESTATE DEVELOPMENT COMPANY

Since its establishment in 2007 by leading companies and private investors from Saudi Arabia, Kuwait and Bahrain, Bayan Real Estate Development Company has been actively involved in real estate development, the acquisition of land for construction, and maintenance of real estate projects. Its focus is primarily on demand-driven, non-speculative real estate projects in Saudi Arabia. All infrastructure work for its debut project – Gardinia Aziziyah – has been completed, and construction has commenced for phase one. This SR 800 million affordable residential project, which covers an area of 625,000 square metres, is located in Al-Aziziyah area of Al Khobar, close to Half Moon Beach and Prince Mohammed bin Fahd University. During FY 2014, Bayan sold one of its holdings – Land Mark 1 - for a gain of 17.5 per cent after a five-year holding period. VCBank is currently in discussions with potential buyers to exiting its stake in the Company.

GULF PROJECTS COMPANY

Gulf Projects Company is the part-owner and operator of Venture Capital Bank Building in the Diplomatic Area of Manama in Bahrain. In FY 2014, this successful mixed-use commercial, retail and car parking complex achieved 100 per cent capacity of the office area and 70 per cent occupancy of the private car park section. In addition, the signing of new contracts with Kashta and Cinecafe resulted in 100 per cent occupancy of the food retail arcade. The Venture Capital Bank Building is the prime asset for the short-term trust certificates of VCBank's Liquidity Programme (see entry opposite).

VCBANK LIQUIDITY PROGRAMME

MOZON INVESTMENT HOLDING COMPANY

Mozon provides VCBank with an investment platform for opportunities in Morocco. The Lounge – a specialist serviced offices company launched in Bahrain in 2008 – has been successfully replicated in Casablanca. Mozon has completed investments in the education and affordable housing sectors, and has identified a number of new business opportunities.

INVESTMENT PORTFOLIO UPDATE

REAL ESTATE

MAYFAIR CHAMBERS

Mayfair Chambers is situated in the Mayfair W1 conservation area, one of London's most prestigious residential locations, second only to the prime SW1 postcode of Knightsbridge and Belgravia. Construction of this GBP 30 million property development in the heart of Central London, housing six luxurious residences, has been completed on time. Four apartments have been sold, with the remaining two expected to be sold in the second half of 2014, after which the investment will be fully exited.

London's prime and super-prime residential market has weathered the global financial crisis, with prime property currently valued at 20 per cent higher than its 2007 peak. The market is forecast to continue performing strongly, driven by London's safe haven status and limited delivery of new homes. Mayfair is considered to be under-priced when compared with Knightsbridge and Belgravia, where values in excess of GBP 4,000 per square foot have been achieved. Very few new, or relatively new, apartment blocks of a similar scale are currently available in this sought-after residential area.

PARK CRESCENT WEST

VCBank and Saudi Venture Capital Investment Company are part of a high-profile consortium led by the Saudi-based Rassmal Group, which is owned by the Al Shawaf family. Through its construction company, Al Bawani, the group has established itself as a leading high-end contracting company in the Kingdom, with significant strengths in residential property and healthcare. The consortium has invested in the acquisition and development of an iconic residential development in one of London's most prestigious residential areas overlooking Regent's Park.

Park Crescent West was originally designed as one of the main gateways to Regent's Park by the famous architect John Nash in the early 19th century. The consortium's objective is to acquire this historical site, demolish the existing commercial-use sections, and redevelop it into a fully residential scheme offering 81 high-specification apartments and five mews houses, while retaining the magnificent Nash frontage. With its London W1 postcode, Park Crescent West is situated in a prime residential area of Central London, where there is a limited supply of competing property, and a growing demand for high-end residential accommodation. Key developments in FY 2014 include the successful acquisition of the property, while an application for planning approval to Westminster City Council is being submitted.

JEBEL ALI LABOUR ACCOMMODATION

This project involves the construction of three strategically-located labour and staff accommodation complexes in the Jebel Ali Industrial Area, Dubai. Fully-compliant with the latest UAE regulations for labour accommodation, the complexes will provide high-quality accommodation and supporting amenities for over 4,360 workers. Labour camp market dynamics had been adversely impacted in the years affected by the financial and economic crisis that engulfed the region. The GCC experienced a sharp downturn in the construction sector, which had previously made a significant contribution to the development of the labour market segment. However, market conditions are fast recovering, driven by Dubai having been selected to host Expo 2020. Rental rates have rebounded by over 300 per cent, with demand for labour accommodation now coming across the board from companies in sectors including contracting, facilities management, light industrial, cleaning and retail. One building has been fully rented, and efforts are underway to secure reputable tenants for the remaining two buildings. The number of approaches and offers for the project have increased substantially compared with the previous years. Management are currently in the final stages of completing the rental of the second building. Following receipt of government approvals - which are expected around the end of this year or the beginning of next year - the third building will be rented.

ONE BAHRAIN

The land for this Shari'ah-compliant hospitality and residential project, located on the prestigious Reef Island development off the north coast of Manama, was acquired through a joint-venture with a Bahraini partner during 2008. One Bahrain will be developed as an up-market residential development split into two components: 160 residential/serviced apartments that will be sold to end-users, and 180 serviced apartments that will be managed by a renowned hospitality operator. Institutional and individual investors from the GCC and abroad are currently showing interest in this project.

DIFAAF

This architecturally distinguished real estate development, on a plot measuring 16,000 square metres, consists of two high-rise residential towers strategically located on Reef Island, off the north coast of Manama in Bahrain. Reef Island represents the most prestigious prime development in Bahrain in terms of location and types of dwelling. The land has been purchased and designs drawn up; and preliminary construction works, such as piling, have been completed. During FY 2014, a revaluation of the land reflected the recovery in the Kingdom's real estate sector, and the project was re-tendered to a select number of contractors. At the same time, enquiries have been received from real estate agents for the sale of the land.

GREAT HARBOUR

Great Harbour was established by VCBank and its strategic investors with local partners to undertake a mixed-use development of residential and retail components on a plot measuring over 35,000 square metres in the Hidd Area, Bahrain. A unique seafront plot with excellent development potential, Great Harbour is located alongside the new Shaikh Khalifa Park. To date, the Company has not entered into any major agreements with service providers such as banks, consultants, architects or contractors. It is therefore currently assessing the market and expects to be able to take advantage of anticipated reductions in the cost of construction and related development expenses.

JEBEL ALI LABOUR ACCOMMODATION

MAYFAIR CHAMBERS

PARK CRESCENT WEST

WEALTH MANAGEMENT

Wealth Management is responsible for developing and maintaining relationships with VCBank's broad network of institutional investors and high net worth individuals across the GCC. The Bank has also established a number of strategic relationships with certain institutions interested in particular types of investment offerings.

The Wealth Management team consists of highly-qualified and experienced professionals assigned to cover the Kingdom of Bahrain, all provinces of the Kingdom of Saudi Arabia, the State of Kuwait, all Emirates of the UAE, the State of Qatar and the Sultanate of Oman. Team members have constantly demonstrated their technical ability to place a wide range of products across different sectors. Acting as the main point of contact for investors, the team members deliver regular portfolio updates, introduce new investment opportunities, offer insight into local and regional markets, and provide financial advisory to their clients as partners.

During FY 2014, the team maintained its close client relationships through regular visits across the region. Two new investment offerings – Byrne Investment Limited and Turley Farmland – were successfully placed with clients, despite the volatile investment environment and intensified competition from other players in the region.

The purchase of Byrne Investment Limited (one of the largest and most diversified equipment rental and modular space providers in the GCC), illustrates VCBank's strategy to diversify its investment portfolio by sector and geography through the addition of successful companies that offer high growth potential.

The Turkey Farmland transaction, which entails the purchase of 10 million square metres of farmland in prime locations in Turkey (one of the largest fruit producers in the world), complements VCBank's existing investment in Goknur, the leading Turkish fruit concentrate company, of which the Bank and its investors own 83.5 per cent. The farmland will be leased to Goknur, who will manage the entire process of plantation, harvesting, marketing and sales.

Providing the highest levels of client service remains a key priority for VCBank. Final testing for the implementation of the Bank's new client relationship management (CRM) system is almost finalised. Incorporating highly-sophisticated client profiling, the system will enable VCBank to provide shareholders and investors with a more focused and responsive service.

The change in VCBank's fiscal year from January - December to July - June has been well received by clients. Designed to align the Bank's reporting year with the annual cycle of investment structuring and placement, and minimise the impact of the holiday season, it provides investors with a more timely and convenient service.

Committed to meeting clients' needs for more diversified wealth management solutions, VCBank is developing plans to expand its product offering. Key areas under consideration include additional liquidity programmes and the provision of new debt instruments. The Bank is also currently finalising a timetable of planned investments exits, and has identified a number deals which are expected to be concluded during FY 2015.

Since the establishment of VCBank nine years ago, the Wealth Management team has successfully placed all the investment offerings of the Bank, which constitutes an exceptional performance for a regional investment bank. This would not have been possible without the enduring trust and confidence of VCBank's highly-supportive and loyal investor base.

CORPORATE FUNCTIONS

HUMAN RESOURCES & ADMINISTRATION

While maintaining its prudent and cost-conscious approach to human resources, VCBank resumed recruitment during the year to ensure sufficient staffing levels to support the growth of the business. Additional professionals were hired in selected areas of operations, including Human Resources & Administration and Investments. In addition, as part of VCBank's business continuity policy, the relocated disaster recovery site became fully operational during the year. The Bank was also successful in further reducing the use of paper and printers through the extended application of tablets for meetings, including the Board and its Committees. As a result of further organisational streamlining, the HR & Administration function now reports directly to the Chief Executive Officer.

TRAINING & DEVELOPMENT

The Bank continued to invest in human resource development and training, with a particular focus on supporting staff to gain professional qualifications. Through participation in Tamkeen's professional certification scheme, two members of staff were qualified as 'Certified Professionals in HR and Compensation'. Following the identification of individual training needs during annual staff appraisals, selected employees were registered for relevant training courses with the Bahrain Institute of Banking & Finance or other accredited providers. VCBank continued to provide internships for students from Bahrain-based universities and the Ministry of Education's training programme, as well as offering work experience for college students.

INVESTOR RELATIONS

Providing the highest levels of client service remains a key priority for VCBank. Final testing for the implementation of the Bank's new client relationship management (CRM) system is almost finalised, with all client information being uploaded. In order to comply with FATCA regulatory requirements, external consultants were commissioned to conduct an impact analysis and recommend appropriate processes and procedures. The CRM system, which is integrated with Wealth Management and Financial Control, will enable the Bank to provide shareholders and investors with a more focused and responsive service.

CORPORATE COMMUNICATIONS

A key communications development during the year was the launch of VCBank's new corporate website, which features greater functionality and ease of navigation. The Bank continued to communicate with all stakeholders in a professional, transparent and timely manner. Main communications channels comprise the annual general meeting of shareholders, annual report, corporate website, and regular announcements in the local media.

INFORMATION TECHNOLOGY

VCBank maintained its significant investment in information technology during the year, with a focus on further enhancing the quality and security of its ICT infrastructure and assets. Key developments include upgrading main applications used by staff to improve performance; introducing Wi-Fi throughout the head office for staff and guests; and installing a virtual private network (VPN) to enable the Wealth Management team and other authorised staff to access the IT system remotely. In addition, planning was finalised for a new video conferencing facility to enhance communications with subsidiaries and portfolio companies, and also for use in Board meetings.

Information security remained a priority, with the successful testing of the Bank's intrusion prevention system being conducted in-house by the Information Security Officer, who is a Certified Ethical Hacker; while the relocated disaster recovery site will become soon operational. VCBank moved closer to its goal of being a 'paperless organisation' through the extended use of smart devices and tablets for meetings (including Board meetings), and by the Wealth Management and Investment teams. In addition, final testing for the implementation of the Bank's new client relationship management (CRM) system is almost finalised; and consultancy services continued to be provided for the commissioning of healthcare management systems by the Royal Maternity Hospital project.

FINANCIAL CONTROL

During the year, the Financial Control division continued to play a key role in supporting and meeting the information requirements of the Senior Management and Board of Directors and of the Investment and Wealth Management teams. The division is responsible for all financial accounting and audit of the Bank and its investment projects, and for the preparation and submission of a range of prudential information reports including capital adequacy and liquidity to the Central Bank. During the year, the division played an active role in managing the Bank's liquidity and in enhanced earnings through provision of cash management services to investors, including the VCBank Liquidity Programme and acting as a cash manager for portfolio companies. The division has enhanced its policies and procedures through the development of a new Liquidity Management Policy during the year. Back office processes were further streamlined to provide enhanced support to all areas of the Bank including transactions processing.

RISK MANAGEMENT REVIEW

The Board of Directors has the overall responsibility for establishing VCBank's approach to risk, and in ensuring that an effective risk management framework is in place. The Board approves and periodically reviews the Risk Management policies and strategies of the Bank. The Head of Risk Management reports directly to the Risk Committee of the Board, and administratively to the Chief Executive Officer.

The primary objective of the Risk Management department is to provide an enterprise-wide approach to risk management; proactively identify, monitor and mitigate all embedded risks; establish risk management standards; and instill an organisational culture whereby all employees are individual owners of risks. The department periodically reviews and assesses the Bank's Risk Management policies, processes and procedures; and provides advice to strengthen internal controls. The department is also responsible for the development of a Risk Management and Internal Capital Adequacy Assessment Framework, which incorporates a capital allocation process to ensure that the Bank manages its capital in accordance with standards prescribed by the Central Bank of Bahrain.

VCBank is exposed to various kinds of risks, which are described in the Notes to the Consolidated Financial Statements (see Note 37), and in the Basel II Pillar 3 Disclosures.

INVESTMENT RISK

Investment risk, which arises from the Bank's investments in venture capital and business development, private equity and real estate, is the main risk to which the Bank is exposed. VCBank seeks to manage its investment risk through each stage of the investment process, including deal sourcing, acquisition, investment holding period and divesture. The day-to-day operational management of the Bank's investments is overseen by the Investment team, while the Risk Management department reviews all investments from the perspective of VCBank's balance sheet and client franchise. Prior to funding an investment, and regardless of its size, the department provides an independent assessment of the opportunity, highlighting key risks prior to commitment.

The Risk Management team analyses the financial models to identify how a potential investment might perform under various scenarios, focusing where appropriate, on specific characteristics of the investment. The main risk and return drivers of the investment are identified and simulated to determine the potential range of outcomes. This analysis is performed in addition to the extensive due diligence undertaken by the Investment team; and enables measurement of the target investment's risk compared to previous investments undertaken by VCBank, as well as its fit from a client franchise and balance sheet retention perspective.

Once the investment is acquired, the Risk Management department takes a portfolio approach in evaluating the risk impact on the balance sheet. Such risk analysis is performed regularly to ascertain how the risks of the portfolio change over time, and how they relate to internal limits and guidelines. Correlation analysis of the portfolio holdings is also conducted on a regular basis in order to identify any over-concentration in a specific sector or geography.

OPERATIONAL RISK

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems; or from external events such as natural disasters, changes in regulation, or outsourcing of operations. The Risk Management team conducts a risk and control self-assessment (RCSA) in each business line and control function, in order to identify and assess the major operational risks, and the relevant controls which mitigate those risks. Where necessary, mitigation plans are drawn up to improve the control environment, with ownership being allocated to the relevant department. Key risk indicators are also identified and adjusted to enable a comprehensive and efficient early warning system. The Operational Risk framework also includes the implementation of all relevant policies, and the development of a comprehensive risk register. The Internal Audit function also makes regular, independent appraisals of the control environment in all identified risk areas.

Monitoring and reporting of operational risk events to Senior Management and the Board is conducted on a regular basis. Also, as part of the framework, a maker/checker process is implemented in key operational functions. In line with Basel II compliance, VCBank applies the Basic Indicator Approach (BIA) to measure operational risk. Under the BIA approach, VCBank's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient which has been set at 15 per cent in the CBB's Basel II capital adequacy framework

INTERNAL CAPITAL ADEQUACY ASSESSMENT PLAN (ICAAP)

The internal capital adequacy assessment plan (ICAAP) incorporates a proprietary capital allocation process to ensure that the Bank manages its capital in accordance with international best practices, and meets the standards prescribed by the Central Bank of Bahrain. VCBank uses this model to determine if it has sufficient capital to cover the combination of all balance sheet risks; while maintaining sufficient flexibility to facilitate future growth plans, and protect against periods of prolonged and extreme stress in the Bank's operating environment, execution or performance.

CORPORATE GOVERNANCE REVIEW

VCBank is committed to upholding the highest standards of corporate governance in full compliance with relevant governing laws, regulations and international best practice. The Bank has put in place a robust and comprehensive Corporate Governance Framework (the Framework) aimed at ensuring the adoption of the highest standards of ethical conduct, transparent and prudent disclosures, and operational effectiveness; while protecting the rights and interests of all stakeholders. The Framework has been designed in accordance with the Nine Principles of the Kingdom of Bahrain's Corporate Governance Code, which was issued by the Ministry of Industry & Commerce in March 2010; and embraced by the Central Bank of Bahrain in its High-Level Controls Module in October 2010. The adoption and implementation of such regulations, along with the continuous review and adherence to the Bank's Corporate Governance Framework, is the direct responsibility of the Board of Directors.

KEY ASPECTS OF VCBANK'S CORPORATE GOVERNANCE FRAMEWORK

1. A comprehensive set of Charters and Job Descriptions that clearly articulate the roles, responsibilities and mandate of the Board of Directors, Board Committees, the Executive Management and the Control Functions, as well as all other key functions within the Bank.

2. A comprehensive set of Policy and Procedures Manuals considered as an integral part of the framework, including Internal Discretionary Authority Limits; Code of Conduct, Ethics & Conflict of Interests Policy; Whistle Blowing Policy; Investment Companies Governance Framework; Directors' Independence Policy; Board Committees Minutes of Meeting Policy; and Customer Complaints Policy.

3. Effective and independent Board oversight through the formation of five independent Board Committees; and through the Bank's Control Functions, with clear, direct and independent reporting lines.

4. A reputable and independent Shari'ah Supervisory Board.

5. A comprehensive annual self-assessment and evaluation of the Board and its Committees.

6. An effective set of Policies and Procedures to govern the activities of the Bank's Business Units and Support Functions.

7. An up-to-date and adequate formal succession plan for the Bank's key positions.

KEY DEVELOPMENTS DURING THE PERIOD UNDER REVIEW

During the period covering 1 July 2013 to 30 June 2014, VCBank continued to strengthen the knowledge base of the Board of Directors and the Executive Management. The Bank sponsored the World Islamic Banking Conference, and accordingly, all members of the Executive Management Committee actively participated in the event. On another level, the Board of Directors and the Executive Management of the Bank conducted a high-level strategy meeting in Turkey which covered in a very detailed way, investments-related issues, challenges and recent trends, financial related issues, and overall risk-related issues. In addition, the Bank continued to provide its feedback on some consultation papers issued by the Central Bank of Bahrain aimed at enhancing overall practices in the banking industry.

BOARD OF DIRECTORS

The Board of Directors is the central leadership of the Bank, and is responsible for the stewardship of the Bank's business and affairs on behalf of its shareholders. The Board is also responsible for articulating the Bank's objectives, strategies and risk appetite with a view to enhancing long-term shareholder value; while taking into account the interests of all relevant stakeholders, and maintaining the highest standards of transparency and accountability. The Board ensures that high ethical standards are established across the Bank, and regularly reviews and monitors the Bank's compliance with the regulations of the Central Bank of Bahrain (CBB). Based on the Bank's Memorandum and Articles of Association, the Board comprises 12 members, representing a mix of high level professional skills and expertise, and with the majority being Independent Non-Executive Directors. The appointment of Directors is subject to the prior approval of the CBB and the shareholders, with classification of Directors in line with the definition stipulated in the CBB Rulebook. Board Members and their profiles are listed at the end of this Review.

BOARD COMMITTEES

The Board is supported by the following five Board Committees:

- Nomination & Remuneration Committee
- Corporate Governance Committee
- Audit Committee
- Risk Committee
- Finance & Investment Committee

MEMBERSHIP OF BOARD COMMITTEES

Board Committee	Member's Name	Member's Position
Nomination & Remuneration Committee	Dr. Ghassan Al Sulaiman Mr. Abdulfatah Marafie Mr. Sulaiman Al Hudaithi	Chairman Deputy Chairman Member
Corporate Governance Committee	Mr. Abdulfatah Marafie Dr. Ghassan Al Sulaiman Mr. Mohammed Al Sarhan	Chairman Deputy Chairman Member
Audit Committee	Mr. Nedhal Al Aujan Mr. Marwan Al Ghurair Mr. Yasser Al Jarullah	Chairman Deputy Chairman Member
Risk Committee	Mr. Saleh Al Shanfari Mr. Mohammed Al Sarhan Mr. Abdulhadi Al Shahwani	Chairman Deputy Chairman Member
Finance & Investment Committee	Dr. Ghassan Al Sulaiman Mr. Abdulfatah Marafie Mr. Abdullatif Janahi Mr. Saleh Al Shanfari Mr. Mohammed Alkandari	Chairman Deputy Chairman Member Member Member

NOMINATION & REMUNERATION COMMITTEE

The mandate of the Nomination & Remuneration Committee is to assist the Board of Directors in establishing a fair and transparent nominations process for the appointment and remuneration of Directors, Board Committee members and the Chief Executive Officer, and remuneration of the Executive Management team.

CORPORATE GOVERNANCE COMMITTEE

The mandate of the Corporate Governance Committee is to assist the Board of Directors in fulfilling its responsibilities of corporate governance and oversight of the Bank's compliance with legal and regulatory requirements, as well as liaising with the Shari'ah Supervisory Board.

AUDIT COMMITTEE

The Audit Committee is mandated with oversight responsibilities on financial reporting, internal control and risk management, internal and external audit, and adherence to Shari'ah rules and principles.

RISK COMMITTEE

The mandate of the Risk Committee is to maintain oversight of the Bank's risk management framework, including its Basel II framework, covering all risks faced by the Bank as well as its control environment.

FINANCE & INVESTMENT COMMITTEE

The mandate of the Finance & Investment Committee is to oversee the financial and investment affairs of the Bank, including asset and liability management in coordination with the Executive Management Committee.

DIRECTORS' ATTENDANCE JULY 2013 TO JUNE 2014

The Board of Directors and its Committees meet regularly towards fulfilling their responsibilities. Below is a summary of the Board and its Committees meetings.

Names of Directors	Board Meeting	Finance & Investment Committee Meeting	Risk Committee Meeting	Audit Committee Meeting	Corporate Governance Committee Meeting	Nomination & Remuneration Committee Meeting
Dr. Ghassan Ahmed Al Sulaiman	5 of 5 C	4 of 4 C			3 of 3	2 of 2 C
Mr. Abdulfatah Moh'd Rafie Marafie	5 of 5	4 of 4			3 of 3 C	2 of 2
Mr. Abdullatif Moh'd Janahi	5 of 5	4 of 4				
Mr. Saleh Moh'd Al Shanfari	5 of 5	4 of 4	4 of 4 C			
Mr. Marwan Ahmed Al Ghurair	5 of 5			4 of 4		
Mr. Nedhal Saleh Al Aujan	5 of 5			4 of 4 C		
Mr. Sulaiman Ibrahim Al Hudaithi	4 of 5					2 of 2
Mr. Abdulhadi Treheeb Al Shahwani	2 of 5		2 of 4			
Mr. Mohammad Abdulrazzaq Alkandari	5 of 5	4 of 4				
Mr. Mohammed Abdulaziz Sarhan	5 of 5		4 of 4		3 of 3	
Mr. Yasser Mohammed Al Jarullah	4 of 5			3 of 4		
Mr. Khalid Abdulaziz Al Mediheem	5 of 5					

C - Denotes Chairman

DIRECTORS' REMUNERATION

The Nominations & Remuneration Committee assists the Board in establishing a fair and transparent nomination and remuneration process for the appointment and remuneration of its Directors and Board Committee members. This Committee is guided by the Nomination & Remuneration Committee Charter, which forms part of the Bank's overall Corporate Governance Framework.

The current remuneration practice is a formula-based approach, based on the Bank's profitability level and the number of Board meetings attended by each Director. It also reflects the extent of responsibilities of each Director. Total remuneration includes Directors' membership in one or more of the Board's committees. The actual remuneration of VCBank's Board of Directors and the Bank's policy are disclosed in the Bank's annual report. This disclosure policy supports the Bank's assurance to its stakeholders that sufficient disclosure is provided in relation to the Bank's remuneration policies. The Bank is finalising the process of complying with the CBB's newly-issued regulatory requirements pertaining to sound remuneration practices. Accordingly, VCBank modified its Articles of Association during the last AGM/EGM.

BOARD AND BOARD COMMITTEES DEVELOPMENT

BOARD DEVELOPMENT

The annual awareness plan for Board members enables them to carry out their responsibilities in line with recent regulatory developments and market conditions in an informative and effective way. Normally, the awareness plan includes important topics such as corporate governance, compliance and risk management. In February 2014, the Bank conducted a strategy meeting in Turkey for the Board Members and the Executive Management team to review the Bank's strategic plan and objectives, as well as to discuss all Investments-related issues, challenges and recent trends, financial-related issues, and overall risk-related issues.

BOARD EVALUATION

The Bank has in place a comprehensive Board Evaluation Programme, which is designed to help Directors identify areas for improvement and reinforce their responsibilities. The Board of Directors annually conducts the self-evaluation of the performance of the Board as well as its committees.

SHARI'AH SUPERVISORY BOARD

Composed of eminent Shari'ah scholars, the Bank's Shari'ah Supervisory Board is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Shari'ah. Members of Shari'ah Supervisory Board and their profiles are listed on page 10 of this annual report.

MANAGEMENT

The Chief Executive Officer (CEO) is delegated by the Board of Directors with responsibility for the day-to-day management of the Bank. The CEO is supported by a well-qualified and experienced Executive Management team. Executive Managers and their profiles are listed at the end of this Review.

EXECUTIVE MANAGEMENT COMMITTEE

The Executive Management Committee comprises the members of the Executive Management team. The Committee is responsible for assisting the CEO in overseeing day-to-day operations of the Bank; monitoring the performance of business lines and departments in relation to strategy, policies, targets and limits; and conducting investment decisions as delegated by the Board of Directors under the Discretionary Authority Limits (DAL), in addition to asset and liability management in coordination with the Finance & Investment Committee.

STRATEGY STATEMENT

VCBank is the first Islamic investment bank in the MENA region to specialise in small-to-medium enterprises (SMEs) capital investment opportunities. Offering clients a broad range of superior products and services across a number of promising asset classes in the region, the Bank is active in venture capital and business development, private equity, and real estate. VCBank is uniquely positioned to lead the development of the nascent venture capital industry in the region by providing unmatched levels of support for fundamentally strong, undervalued small-to-medium enterprises (SMEs) that lack the necessary resources for growth and expansion. The Bank's strategy and business model is reviewed annually.

CODE OF CONDUCT

The Bank has developed a Code of Conduct which contains rules on professional conduct and ethical behaviour that are applicable to the Directors and employees of the Bank. The Code is designed to guide all Directors and employees in fulfilling their responsibilities and obligations towards the Bank's stakeholders, in compliance with all applicable laws and regulations.

SHAREHOLDER / INVESTOR COMMUNICATION & AWARENESS

The Board is committed to communicating with its shareholders and investors in a professional, transparent, accurate and timely manner, and adopts a number of different ways through which to promote greater understanding and dialogue with all stakeholders. These include the annual general meeting, annual reports and quarterly financial reports, corporate website, and regular announcements in the local media. A detailed and dedicated section on Corporate Governance is available on the Bank's website at: http://www.vc-bank.com/en/about-us/corporate-governance.html

INVESTOR COMPLAINTS

VCBank is dedicated to providing investors with the highest level of proficiency in delivering products and services, as well as promptly assisting and responding to enquiries or complaints. The Bank treats investors' feedback, concerns and complaints with a great deal of due care and attention. Their inputs constitute a key element toward improving the Bank's standards, policies, products and services. While keen to provide a first-class service to its clients, the Bank understands that there could be a few incidences where a client might not be fully satisfied with the Bank's products, services or responses. Therefore, investors are encouraged to immediately contact the Bank if at any stage they feel that its service levels are not up to their expectation. The Bank adopts a strict hierarchy and timeframe toward resolving investors' complaints swiftly and promptly. A dedicated section on complaint handling procedures is available on the Bank's website at: http://www.vc-bank.com/en/complaint-handling-procedure.html.

WHISTLE-BLOWING POLICY

VCBank's Board and Executive Management are committed to creating a culture of openness within the Bank. Accordingly, the Bank has formulated a whistle-blowing policy designed to enable the airing of genuine concerns regarding suspected malpractice within VCBank, enhancing transparency, and safeguarding the Bank's integrity. The whistle-blowing procedure is embedded in the Human Resources Manual. Malpractice includes, but is not limited to: conduct likely to prejudice the reputation of VCBank; breaches of applicable regulations; breaches of internal rules and limitation; criminal offences or endangerment of the health and safety of any person; environmental damage; and the deliberate concealment of any malpractice. The recommended rule of thumb rule is "If in doubt – raise it".

GOVERNANCE CONTROL FUNCTIONS

As well as undertaking their specific responsibilities, the Compliance, Risk Management, Internal Audit, and Shari'ah Review departments work closely together in assisting the Board and Executive Management of the Bank to uphold the highest standards of corporate governance.

COMPLIANCE

Compliance is most effective in a corporate culture that emphasises high standards of honesty and integrity, and where the Board and Executive Management lead by example. At VCBank, compliance is recognised as the personal responsibility of all staff, not just the Compliance function. Compliance with regulatory requirements and internal policies and procedures is an ongoing process, and considered as an integral part of the Bank's culture.

VCBank is committed to complying fully with the rules and regulations of the Central Bank of Bahrain, the Ministry of Industry and Commerce, and other applicable laws and regulations and international best practices. The Bank continuously strives to improve the level of compliance in conducting its business by actively educating staff to increase awareness of compliance issues and principles.

The Bank's Compliance department acts as a central point for all regulatory compliance, as well as compliance with the Bank's internal policies and procedures. The department is independent from other business activities, and performs its compliance-specific responsibilities along with other limited activities as defined by the CBB, such as Anti-Money Laundering. The Compliance department reports functionally to the Corporate Governance Committee and administratively to the CEO, to ensure that the Bank's compliance objectives are achieved to the highest professional and ethical standards.
The department performs its activities under a well-established Compliance Framework which is articulated by a comprehensive Compliance Manual approved by the Bank's Board. The primary purpose of the manual is to facilitate the establishment of a robust compliance culture within VCBank, and to enable the Bank to discharge its duties toward all regulatory authorities' requirements, and ensure appropriate management of the Bank's compliance risk.

ANTI-MONEY LAUNDERING

VCBank's Anti-Money Laundering measures are based on three main pillars:

1. The Ethical pillar, by actively taking part in the fight against financial crime.
2. The Professional pillar, by preventing the Bank and its products to be used as a channel for money laundering and terrorist financing by recycling the proceeds of crime.
3. The Legal pillar, by complying with Kingdom of Bahrain's legislation and regulations pertaining to Anti-Money Laundering (AML) and Combating Terrorist Financing (CTF).

The Bank's AML Manual has been developed in line with Central Bank of Bahrain guidance, and the requirements stipulated in the Financial Crime Module of the CBB Rulebook Volume 2 – Islamic Banks; international best practices promoted by the Financial Action Task Force (FATF), with 40 recommendation on money laundering and 9 special recommendations on terrorist financing; and Basel Committee guidance on Customer Due Diligence. The manual provides a comprehensive set of AML policies and procedures that set out detailed requirements relating to customer identification, customer due diligence, ongoing due diligence and monitoring, reporting SAR, combating the financing of terrorism, record keeping, and staff education and training.

The Bank's compliance with the Anti-Money Laundering regulations is monitored by its Money Laundering Reporting Officer (MLRO) and Deputy MLRO; and independently assessed, both internally and externally, by Internal Audit and the Bank's external Auditors on an annual basis. In addition, the CBB performs periodic inspections and follows up on the Bank's compliance with Anti-Money Laundering regulations.

The Bank is in the final stages of the full implementation of the Foreign Account Tax Compliance Act ("FATCA") requirements.

RISK MANAGEMENT

The role and responsibilities of the Risk Management function are covered under the Risk Management Review section of this annual report.

INTERNAL AUDIT

The Internal Audit department reports directly to the Audit Committee of the Board, and administratively to the Chief Executive Officer. The department is responsible for evaluating and providing assurance to the Board of Directors and Executive Management on the effectiveness of the Bank's control, risk management and governance processes. This involves reviewing the effectiveness and efficiency of all business processes and their compliance with the Bank's policies, standards and procedures, and all applicable laws and regulations. In addition, the department audits the activities of some portfolio companies for which the Bank has a fiduciary responsibility. The department conducts its audits in accordance with the audit plan approved by the Audit Committee. This plan is developed using a risk-based methodology which also considers any risks identified by the Risk Management function, the Executive Management and external Auditors. Regular reports on Internal Audit activities are presented to the Audit Committee. The Internal Audit department also provides Management and staff with preventive advice and guidance.

SHARI'AH COORDINATION & REVIEW

The Shari'ah Coordination & Review department reports directly to the Bank's Shari'ah Supervisory Board, and administratively to the Chief Executive Officer. The department adopts a unique continuous review methodology rather than an annual retrospective Shari'ah audit, with all transactions and deals being reviewed, even if there are precedents. The department is proactively involved in the development of new products and investments; follows up on investment project activities such as sub-transactions; and monitors cash management transactions and operations payments on a daily basis.The department plays an important role in communicating all transactions, structures and documentation of every business plan to the Shari'ah Supervisory Board, in order to ensure that the Bank's activities are in full compliance with the rules and principles of Islamic Shari'ah.

STATUS OF COMPLIANCE WITH CBB'S CORPORATE GOVERNANCE GUIDELINES (HIGH LEVEL CONTROLS MODULE)

As required by the CBB, VCBank regularly review its compliance with the governance requirements stipulated in the CBB's High Level Control Module of its Rulebook Volume 2 - Islamic Banks. The Bank's effort has yielded a high level of compliance with the Nine Principles of the Corporate Governance Code of the Kingdom of Bahrain, along with its Rules and Guidance. The CBB has embraced the 'Comply or Explain' methodology with regard to its guidance. VCBank is fully compliant with the requirements of the CBB's High Level Control Module except for the following guidance listed below. However, it should be noted that in order to comply with CBB's objectives, VCBank implemented alternative internal arrangements as explained below.

GUIDANCE HC-7.2.4: The Bank should maintain a website with a dedicated section on describing shareholders' right to participate and vote at each shareholders meeting; posting documents relating to the meetings; and establishing electronic means for communicating with shareholders, including the appointment of proxies.

VCBANK'S EXPLANATION: The Bank's website has been completely renovated and improved with certain enhancements. Final testing for the implementation of the Bank's new client relationship management (CRM) system is almost finalised, and communication with the shareholders will be handled through the system; however, due to the Bank's current shareholding size, there is no urgent need to implement an electronic system for handling the appointment of shareholders' proxies. The current manual approach is considered sufficient for the time being, but the Bank will take this issue into consideration for future improvement.

GUIDANCE HC-9.2.4A: The Corporate Governance Committee shall be chaired by an independent director.

VCBANK'S EXPLANATION: The current Chairman of the Corporate Governance Committee (CGC) is a Non-Executive Director; however, due to his percentage ownership in the Bank, he is not considered as an Independent Director. The other members of the committee are Independent and Non-Executive Directors. Taking into consideration the vast experience of the Chairman of the CGC in the area of Corporate Governance, as well as his positive participation during the previous term, the Board is of opinion that the current composition of the CGC is highly adequate and does not compromise the mandate of the committee.

GUIDANCE HC-9.2.4B: The Corporate Governance Committee shall consist of at least three members, one of whom should be from the Shari'ah Supervisory Board (SSB).

VCBANK'S EXPLANATION: It is worth noting that VCBank established a dedicated Corporate Governance Committee (CGC) since inception, as part of its commitment to promote good governance. While the CGC does not include a member from the Shari'ah Supervisory Board, the Bank believes that spirit of the CBB's guidance can be achieved through an alternative internal arrangement. This entails providing the SSB with an agenda in advance of CGC meetings. Based on that, the SSB and the Bank's Shari'ah Reviewer have the full right to attend the Committee meetings. In addition, minutes of meetings will be shared with the Bank's SSB for greater transparency.

BOARD MEMBERS' PROFILES

DR. GHASSAN AHMED AL SULAIMAN

Chairman

Kingdom of Saudi Arabia
Independent and Non-Executive Director
Appointed 6 October 2005
35 years' experience

VCBank Committes: Chairman of Finance & Investment Committee; Chairman of Nomination & Remuneration Committee; Deputy Chairman of Corporate Governance Committee.

Chairman: Ghassan Ahmad Al Sulaiman Development Co. Ltd.; Ghassan Ahmed Al Sulaiman Trading (GAAT); Ghassan Ahmad Al Sulaiman Furniture Co. Ltd (IKEA); Kayanat Co.; Saudi Venture Capital Investment Co. (SVCIC); Unaizah Investment Company; Al Mathaaq Development Co. Ltd; Altalea Trading Co.; Delta United Company Ltd.; Goknur Foods Import Export Trading & Production Company, Turkey.
Board Member: Bin Sulaiman Holding Co.; Al Maghrabi Hospitals Co.; Namaa Company.
Board Member and Chairman of Corporate Governance Committee: Arabian Cement Co.

ABDULFATAH MOHAMMED RAFIE MARAFIE

Deputy Chairman

State of Kuwait
Non-Executive Director
Appointed 6 October 2005
34 years' experience

VCBank Committes: Chairman of Corporate Governance Committee and Real Estate Committee; Deputy Chairman of Finance & Investment Committee and Nomination & Remuneration Committee.

Chairman & Managing Director, Chairman of Executive Committee and Corporate Governance Committee: The Commercial Real Estate Company (Al-Tijaria).
Chairman & General Manager, Chairman of Executive Committee: Mozon Investment Holding Company.
Board Member and Vice Chairman of Investment Committee and Member of Audit Committee: The Public Institution for Social Security.
Board Member, Chairman of Nomination Committee and Member of Risk & Audit Committee: Amar Finance and Leasing Company.
Board Member, Chairman of Corporate Governance Committee, and Member of Finance & Investment Committee and Nomination & Remuneration Committee: Saudi Venture Capital Investment Company.
Board Member and Chairman of Executive Committee: Bayan Realty Company.
Board Member and Chairman of Audit & Corporate Governance Committee: Goknur Foods Import Export Trading & Production Company.
Member: Supreme Council for Planning & Development.
Board Member: Kuwait University.
Member of the Board of Trustees: Kuwait Award for Knowledge Economy - Centre of Excellence in Management - College of Administrative Sciences, Kuwait University.
Member of the Board of Trustees: Voluntary Work Centre.
Member: Advisory Council, College of Business. Administrative, Kuwait University.

ABDULLATIF MOHAMED JANAHI
Board Member

Kingdom of Bahrain
Chief Executive Officer
Appointed 6 October 2005
31 years' experience

VCBank Committees: Member of Finance and Investment Committee; Chairman of the Executive Management Committee.

Chairman: Industrial & Financial Investments Company, Kuwait; German Orthopaedic Hospital, Bahrain; Royal Maternity Hospital Holding W.L.L; Lemissoler Maritime Company; Jordan Al Abyad Fertilizers and Chemicals Company (JAFCCO); World Development Company; Gulf Projects Company; Venture Capital Fund Bahrain; Al Jazira Plastic Company.
Deputy Chairman: Challenger Oil Drilling Company; Goknur Foods Import Export Trading & Production Company, Turkey.
Board Member and Chairman of Investment Committee: GLOREI, Oman.
Board Member: Qatar Engineering & Construction Company (QCON); Bayan Realty Company, Saudi Arabia; Mozon Holding Company, Morocco; Saudi Venture Capital Investment Company (SVCIC).

MARWAN AHMAD AL GHURAIR
Board Member

United Arab Emirates
Independent and Non-Executive Director
Appointed 6 October 2005
24 years' experience

VCBank Committees: Member of Audit Committee.

Chairman: Fanan Investments; Fanan Food Trading; Dubai National School.
Board Member: Jordan Al Abyad Fertilizers and Chemicals Company (JAFCCO).

SALEH MOHAMMED AL SHANFARI
Board Member

Sultanate of Oman
Independent and Non-Executive Director
Appointed 6 October 2005
26 years' experience

VCBank Committees: Chairman of Risk Committee; Member of Finance & Investment Committee.

Chairman: Global Computer Services Company; Asaffa Foods; Asaffa Meat Processing Company; Asaffa Table Eggs (layer) Company; Gpcore India LLC.
CEO: Oman Food Investment Holding Company.
Board Member: Global Omani Investment Company; Global Mining Company; Global Gypsum Company; Global Gypsum Board Company; Omani Integrated Logistic; Global Omani Real Estate Development Company (GLOREI); Arab Poultry Production and Processing, Sudan; Goknur Foods Import Export Trading & Production Company, Turkey; Siraj Real-estate; KMC(Oman) Contracting Company; Century Express (Dubai).
Other memberships: Chairman: Food Security Committee at Oman Chamber of Commerce; Member of Advisory Committee, College of Agriculture and Marine Sciences, Sultan Qaboos University; Omanization Committee (AG & Fisheries).
Previous memberships: MD, Global Omani Investment Co., Tageer Finance, Albatinah Investment Holding, and AlRawabi Group (UAE); AlRawabi Dairy(UAE); Oman Ceramics SAOG; National Cans Factory; Administration Development and Training Institute(ADATI).

NEDHAL SALEH AL AUJAN
Board Member

Kingdom of Bahrain
Independent and Non-Executive Director
Appointed 6 October 2005
31 years' experience

VCBank Committees: Chairman of Audit Committee.

Chief Executive Officer: Bahrain Development Bank.
Chairman: Gulf Diabetes Specialist Centre, Arabian Taxi Company, Middle East Corner Consultancy Company.
Board Member: Retail Arabia.
Chairman of the Executive Committee: Bahrain Business Incubator Centre.

SULAIMAN IBRAHIM AL HUDAITHI
Board Member

Kingdom of Saudi Arabia
Independent and Non-Executive Director
Appointed 4 March 2009
31 years' experience

VCBank Committees: Member of Nomination & Remuneration Committee.

Managing Director: Saudi Research & Marketing Group.
Chairman: Saudi Printing & Packaging Company; Saudi Specialised Laboratories Company.
Board Member: Saudi Research & Marketing Group; Aseer Trading Tourism & Manufacturing Company; Al Madaen Star Group; Venture Capital Investment Company (SVCIC).

ABDULHADI TREHEEB AL SHAHWANI
Board Member

State of Qatar
Independent and Non-Executive Director
Appointed 4 March 2009
41 years' experience

VCBank Committees: Member of Risk Committee.

Chairman and Managing Director: Al Shahwani Group of Companies (including Bin Nayfa Al Shahwani International); Hadi Sons Group; Al Hadi Cars & Heavy Equipments; Gulf Fire Fighting Foam Factory; Qatar Fire Extinguishers Factory; and Shahwani Fire Protection & Technical Services.
Board Member: Qatar Oman Investment Company (Joint Stock Company) & Chairman of Executive & Investment Committee.

MOHAMMED ABDULAZIZ AL SARHAN
Board Member

Kingdom of Saudi Arabia
Independent and Non-Executive Director
Appointed 25 April 2012
37 years' experience

VCBank Committees: Member of Risk Committee and Corporate Governance Committee.

Chairman: Al Safi Danone.
Vice Chairman: National Shipping Company of Saudi Arabia.
Board Member and Senior Advisor: Al Faisaliah Group Holding.
Board Member: European Islamic Investment Bank; Saudi Fresh Dairy Board; Saudi Arabian Public Transport Company; Saudi Civil Aviation Holding Company; Qatar Engineering & Construction Company (QCON).
Member of Board of Trustees: Alyamama University, Riyadh.

MOHAMMED ABDULRAZZAQ ALKANDARI
Board Member

State of Kuwait
Non-Executive Director
Appointed 25 April 2012
14 years' experience

VCBank Committees: Member of Finance & Investment Committee.

Executive Vice President - Direct Investment: Securities Group, Kuwait.
Deputy Chairman: Gulf Energy Holdings, Kuwait.
Board Member: Kuwait Saudi Pharmaceutical Industries, Kuwait; Ajial Real Estate & Entertainment Company, Kuwait; First Investment Company, Kuwait; Technology Industrial Gases Production Company, Kuwait.

YASIR MOHAMMED AL JARULLAH
Board Member

Kingdom of Saudi Arabia
Independent and Non-Executive Director
Appointed 25 April 2012
11 years' experience

VCBank Committees: Member of Audit Committee.
Co-Founder & Chief Executive Officer: Tharwaa Investments.

Board Member: Tharwaa Investments; Bin Jarullah Holding Company; Inma Medical Services; Tharwaa Escan Investments.

KHALID ABDULAZIZ AL MEDIHEEM
Board Member

Kingdom of Saudi Arabia
Independent and Non-Executive Director
Appointed 23 January 2013
41 years' experience

Owner & Chairman: Khalid Al Mediheem Trading Establishment.
Co-Owner: Taleah Trading & Industrial Company; Arad Real Estate Company.

EXECUTIVE MANAGEMENT PROFILES

ABDULLATIF MOHAMED JANAHI, FCMA

Board Member & Chief Executive Officer

Member of Finance & Investment Committee
Chairman of the Executive Management Committee
Joined VCBank in 2005
31 years' experience

One of the originators and key founders of VCBank initiative, Mr. Janahi served as the Managing Director of the Incorporating Committee of the Bank. He is the Chairman of Industrial & Financial Investments Company in Kuwait, German Orthopaedic Hospital in Bahrain, Royal Maternity Hospital Holding W.L.L, Lemissoler Maritime Company, Jordan Al Abyad Fertilizers and Chemicals Company (JAFCCO), World Development Company, Gulf Projects Company, Venture Capital Fund Bahrain, and Al Jazira Plastic Company. Mr. Janahi is Deputy Chairman of Challenger Oil Drilling Company, and Goknur Foods Import Export Trading & Production Company. He is a Board Member of Qatar Engineering and Construction Company (QCon), Bayan Realty Company in Saudi Arabia, Mozon Holding Company in Morocco, Saudi Venture Capital Investment Company (SVCIC), and a Board Member and Chairman of the Investment Committee of GLOREI in Oman. Previously, Mr. Janahi was one of the key founders and a Director of the Incorporating Committee of International Investment Bank, a Bahrain-based Islamic investment bank. Prior to that, Mr. Janahi was a member of the senior management of Assurance & Business Advisory with Arthur Andersen in Bahrain. A Fellow of the UK Chartered Institute of Management Accountants, he holds an MSc in Accounting & Finance from Leicester Business School, De Montfort University, UK; and a BSc in Accounting from the University of Bahrain.

FAISAL A. AZIZ AL ABBASI

Chief Investment Officer

Member of the Executive Management Committee
Joined VCBank in 2005
15 years' experience

Mr. Al Abbasi has specialised experience in private equity and investment banking, having worked with several leading financial institutions in the Middle East. Prior to joining VCBank, he was a senior member of the Middle East Private Equity team at Bank Al Khair (formerly Unicorn Investment Bank). Previously, he worked in the Direct Investment Group at Kuwait Finance House Bahrain, and the Investment Division of BBK. Mr. Al Abbasi holds a BSc degree in Accounting from the University of Bahrain.

SAAD ABDULLA AL KHAN

Executive Director - Investments

Member of the Executive Management Committee
Joined VCBank in 2007
17 years' experience

Mr. Saad Al Khan's background is in the field of Islamic banking. Prior to joining VCBank, he was holding the position of Senior Manager of Investments & Marketing at Al Baraka Islamic Bank (AIB). During his time at AIB, he gained extensive knowledge in the field of Islamic investment banking, and was successful in establishing a broad network of regional relationships, especially in the UAE. At VCBank Mr. Al Khan's role has predominantly been overseeing the Bank's real estate portfolio with a focus of sourcing and structuring investment opportunities in the region and international markets. He holds a BSc in Accounting from the University of Bahrain.

SANTHOSH JACOB KARIPAT, FCA

Executive Director - Financial Control

Member of the Executive Management Committee
Joined VCBank in 2006
32 years' experience

Mr. Santhosh Jacob Karipat has extensive experience in accounting and finance, investment analysis and valuations, auditing, internal controls and general management, gained from working for over 20 years with 'Big Four' accountancy firms in the UK and the Middle East. Prior to joining VCBank, he was Director, Audit & Advisory with KPMG Bahrain & Qatar. Previously, he worked with Deloitte & Touche in Riyadh and Jeddah, Kingdom of Saudi Arabia; and with Coopers & Lybrand in the UK. A Chartered Accountant (Fellow of the Institute of Chartered Accountants in England & Wales), Mr. Karipat holds an MSc degree in Management Science (Business Finance) from the University of Manchester Institute of Science and Technology (UMIST), UK, and a Diploma in Accountancy from Sunderland Polytechnic, UK.

NAJWA ABDULLA MOHANNA, CPA
Executive Director - Operations & Support

Member of the Executive Management Committee
Joined VCBank in 2006
29 years' experience

Prior to her promotion to Executive Director - Operations & Support, Mrs Mohanna was Head of Human Resources & Support, including responsibility for shareholder and investor support. She played a key role in the establishment and operations of Saudi Venture Capital Investment Company (SVCIC). Before joining VCBank, Mrs. Mohanna worked at Bahrain Petroleum Company (Bapco), where she held a number of senior positions in the Management and Financial departments. Her various responsibilities included reporting and profit analysis, and costing and budgeting, cash and bank payroll, and international sales. At Bapco, she was also a key player of the Strategic and Business Planning Programme, and a major contributor to various merger projects. Mrs Mohanna is a Certified Public Accountant (CPA) from the Oregon State Board of Accountancy, USA.

MOHAMED JASSIM AL SHAIKH
Executive Director - Head of Wealth Management

Member of the Executive Management Committee
Joined VCBank in 2006
12 years' experience

Prior to joining VCBank, Mr. Al Shaikh was a Placement Senior Supervisor at Kuwait Finance House Bahrain. Previously, he worked in the Private Banking department at Taib Bank Bahrain, where he was involved marketing a broad range of investment products to HNWI and institutions. He started his career working with Al Shaikh Group as a Sales Manager. Mr. Al Shaikh holds a Masters Degree from NYIT and a BSC in Business Administration (majoring in Finance and Economics) from the University of South Florida, USA.

MENIR AHMED
Director - Head of Risk Management

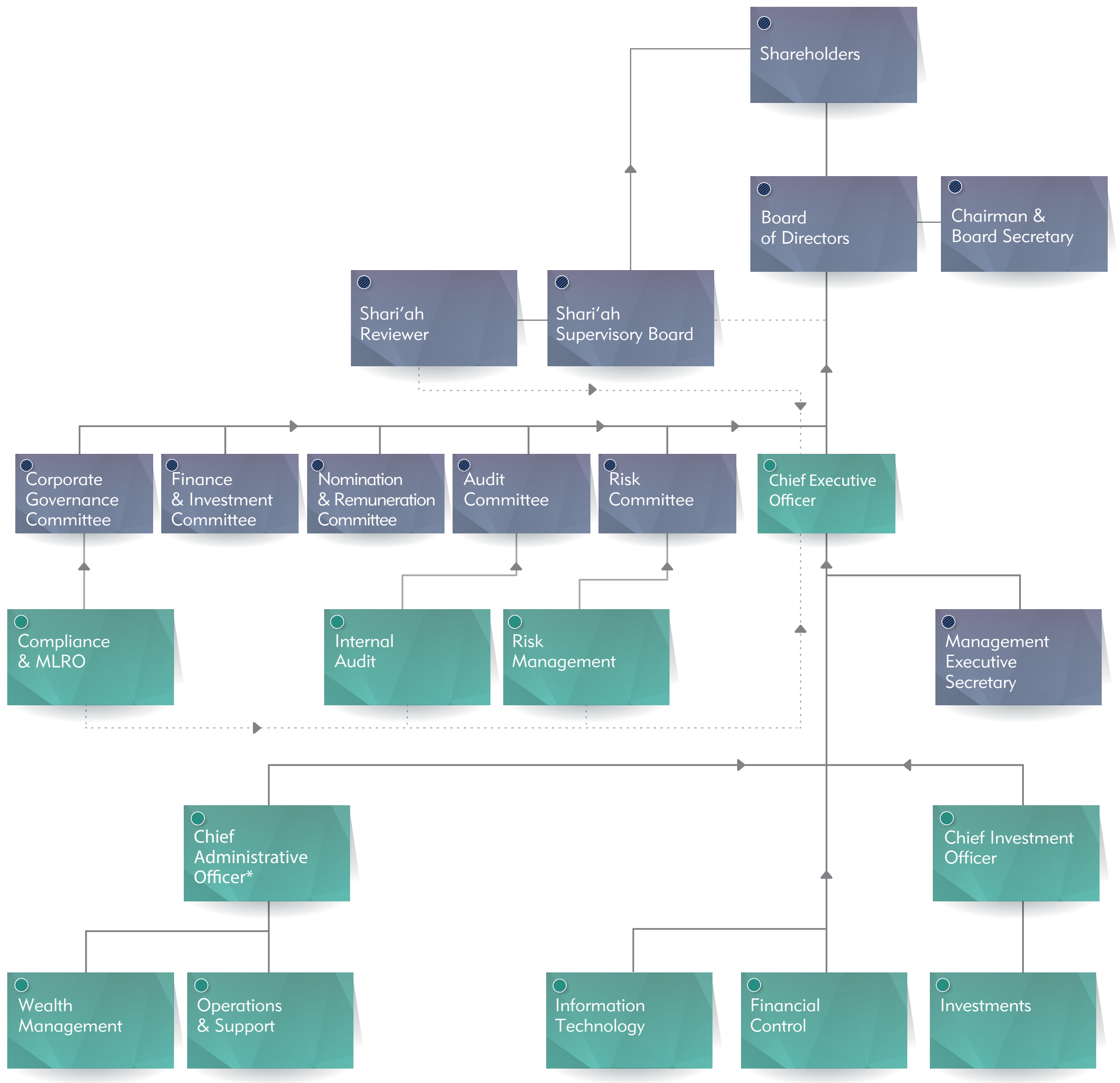
Member of the Executive Management Committee
Joined VCBank in 2013
29 years' experience

Mr. Menir Ahmed has extensive experience encompassing the fields of risk management, treasury and auditing. Prior to joining VCBank, he held senior positions with Oasis Capital Bank and Investcorp Bank in Bahrain. Before this, Menir spent over 20 years working in various institutions in London, including Deutsche Bank, Bankers Trust, ABN Amro, Shell and Ernst & Young. He is a Chartered Accountant (Institute of Chartered Accountants in England & Wales) and a member of the Association of Corporate Treasurers in the UK. Menir holds a BSc. (Hons) degree in Physics and Electronic Engineering from the University of Manchester, UK.

KHALID A.JALIL AL MADANI, CIPA
Director - Head of Compliance and MLRO

Member of the Executive Management Committee
Joined VCBank in 2008
11 years' experience

Mr. Khalid Al Madani was promoted to his current position in 2012, having joined VCBank in 2008 as Deputy Compliance Officer and MLRO. Prior to this, he spent five years with the Central Bank of Bahrain, where his final position was Senior Bank Analyst in the Islamic Financial Institutions Supervision Directorate. He obtained the CIPA designation – as accorded by the AAOIFI during 2009 and holds a Certified Anti-Money Laundering Specialist ("CAMS") credential issued by the Association of Certified Anti-Money Laundering Specialists ("ACAMS") and ICA International Diploma in Compliance awarded in association with Manchester Business School, University of Manchester as well as Professional Certificate in Compliance (MCP) designation by the International Academy of Financial Management. Mr. Al Madani holds a BSc degree in Accounting from the University of Bahrain.



*To be appointed

REWARDING RESULTS

CONSOLIDATED FINANCIAL STATEMENTS 30 June 2014

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VENTURE
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BANK

In the name of Allah the Merciful, the Compassionate

Report of the Shari'ah Supervisory Board for period from 01/07/2013 to 30/06/2014

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 01/07/2013 to 30/06/2014.

It has studied and discussed, with the Bank's management, the financial statements and the income statement for the period from 01/07/2013 to 30/06/2014.

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

Executed on Tuesday, 28/11/1435 H, corresponding to the 23/09/2014

Venture Capital Bank, P.O. Box 11755, Manama, Kingdom of Bahrain
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REPORT OF THE AUDITORS

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

We have audited the accompanying consolidated financial statements of Venture Capital Bank B.S.C. (c) ("the Bank") and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as at 30 June 2014, and the consolidated statements of income, changes in equity, cash flows and changes in off-balance sheet equity of investment account holders, and a summary of significant accounting policies and other explanatory information. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'ah Rules and Principles are the responsibility of the Group's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 30 June 2014, the results of its operations, its cash flows, changes in off balances sheet equity of investment account holders for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

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 Bank 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 for the year ended 30 June 2014 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. The Bank has also complied with the Islamic Shari'ah Rules and Principles as determined by the Shari'ah Supervisory Board of the Group.

Ernst + Young

18 September 2014
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2014

	Note	**30 June 2014 USD '000**	30 June 2013 USD '000
ASSETS			
Balances with banks		**2,797**	5,903
Placements with financial institutions	8	**9,414**	4,720
Investments	9	**145,741**	131,567
Investments in associates and joint venture accounted under the equity method	10	**27,847**	25,033
Investment property	11	**-**	9,130
Receivables	12	**31,335**	13,192
Funding to project companies	13	**14,083**	12,858
Other assets	14	**8,901**	9,246
Property and equipment	15	**9,284**	9,912
TOTAL ASSETS		**249,402**	221,561
LIABILITIES			
Islamic financing payable	16	**20,188**	13,011
Employee accruals		**5,969**	4,109
Other liabilities	17	**7,227**	3,963
Total liabilities		**33,384**	21,083
EQUITY			
Share capital	18	**190,000**	250,000
Share premium	18	**-**	28,429
Unvested shares of employee share ownership plan	18	**(10,000)**	(22,764)
Statutory reserve	18	**3,525**	10,414
Investment fair value reserve	18	**1,196**	245
Employee share ownership plan reserve	18	**-**	5,349
Retained earnings / (accumulated losses)		**31,297**	(71,195)
Total equity		**216,018**	200,478
TOTAL LIABILITIES AND EQUITY		**249,402**	221,561
OFF BALANCE SHEET ITEMS			
Equity of investment account holders		**3,879**	3,740

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.

CONSOLIDATED STATEMENT OF INCOME
For the year ended 30 June 2014

	Note	Year ended 30 June 2014 USD '000	1 January 2012 to 30 June 2013 USD '000
REVENUE			
Income from investment banking services	19	**16,931**	35,053
Finance income	20	**202**	585
Dividend income		**1,564**	3,858
Rental and other income	21	**3,274**	2,674
Total revenue		**21,971**	42,170
OTHER GAINS (LOSSES)			
Fair value losses on investments at fair value through profit or loss - net	22	**(2,233)**	(7,315)
Other gains on investments - net	23	**700**	1,143
Gain on sale of investment property	11	**3,253**	-
Total income		**23,691**	35,998
EXPENSES			
Staff costs	24	**7,784**	8,452
Travel and business development expenses		**522**	912
Legal and professional fees		**1,136**	1,050
Finance expense	20	**848**	269
Depreciation	15	**640**	1,887
Other expenses	26	**2,281**	3,404
Total expenses		**13,211**	15,974
PROFIT BEFORE IMPAIRMENT PROVISIONS AND SHARE OF LOSS OF ASSOCIATES AND JOINT VENTURE		**10,480**	20,024
Impairment provisions released - net	25	**41**	1,230
Recovery of impaired funding to a project company	25	**4,949**	1,703
Share of losses of associates and joint venture, net	10	**(453)**	(1,812)
PROFIT BEFORE BOARD OF DIRECTORS' REMUNERATION		**15,017**	21,145
Proposed Board of Directors' remuneration	28	**428**	-
NET PROFIT FOR THE YEAR / PERIOD AFTER PROPOSED BOARD OF DIRECTORS' REMUNERATION		**14,589**	21,145

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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2014

	Note	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	Retained earnings / accumulated losses USD '000	Total USD '000
Balance at 1 July 2013		250,000	28,429	(22,764)	10,414	245	5,349	(71,195)	200,478
Capital restructuring	18d	(60,000)	(28,429)	12,764	(10,414)	-	(5,349)	91,428	-
Net profit for the year		-	-	-	-	-	-	14,589	14,589
Transfer to statutory reserve	18b, 18d	-	-	-	3,525	-	-	(3,525)	-
Cumulative changes in fair value of available-for-sale investments		-	-	-	-	951	-	-	951
Balance at 30 June 2014		**190,000**	**-**	**(10,000)**	**3,525**	**1,196**	**-**	**31,297**	**216,018**
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
Cumulative changes in fair value of available-for-sale investments		-	-	-	-	(383)	-	-	(383)
Balance at 30 June 2013		**250,000**	**28,429**	**(22,764)**	**10,414**	**245**	**5,349**	**(71,195)**	**200,478**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2014

	Note	Year ended 30 June 2014 USD '000	1 January 2012 to 30 June 2013 USD '000
OPERATING ACTIVITIES			
Net profit for the year / period		14,589	21,145
Adjustments for non-cash items:			
Gain on investments	23	(700)	(1,143)
Share of results of associates and joint venture accounted under the equity method	10	453	1,812
Impairment provisions released - net	25	(41)	(1,230)
Depreciation	15	640	1,887
Gain on disposal of property and equipment		(3)	(100)
Dividend income		(1,564)	(3,858)
Gain on sale of investment property	11	(3,253)	-
Fair value losses on investments at fair value through profit or loss - net	22	(2,233)	(7,315)
Operating profit before changes in operating assets and liabilities		7,888	11,198
Changes in operating assets and liabilities:			
Investments		(8,813)	(4,043)
Receivable from investment banking services		(15,440)	(6,822)
Funding to project companies		(2,901)	(4,957)
Other assets		1,909	(2,589)
Employee accruals		1,860	(2,214)
Other liabilities		3,264	98
Net cash used in operating activities		(12,233)	(9,329)
INVESTING ACTIVITIES			
Dividends received		1,080	2,291
Property and equipment - net	15	(9)	(657)
Proceeds from sale and redemption of investments		5,573	-
Net cash from investing activities		6,644	1,634
FINANCING ACTIVITY			
Islamic financing payables		7,177	4,380
Net cash from financing activity		7,177	4,380
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		1,588	(3,315)
Cash and cash equivalents at beginning of the year / period		10,623	13,938
CASH AND CASH EQUIVALENTS AT END OF THE YEAR / PERIOD		12,211	10,623
Comprising of:			
Balances with banks		2,797	5,903
Placements with financial institutions	8	9,414	4,720
		12,211	10,623

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

CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNT HOLDERS For the year ended 30 June 2014

		Movements during the year				
2014	Balance as at 1 July 2013 USD '000	Investment / (withdrawal) USD '000	Fair value movement / (impairment) USD '000	Gross income USD '000	Bank›s fees as an agent USD '000	Balance as at 30 June 2014 USD '000
GCC Pre IPO Fund	3,740	(17)	156	-	-	3,879
VCBank Investment Projects Mudarabah	-	-	-	-	-	-
	3,740	(17)	156	-	-	3,879

		Movements during the year				
2013	Balance as at 1 January 2012	Investment / (withdrawal)	Fair value movement / (impairment)	Gross income	Bank›s fees as an agent	Balance as at 30 June 2013
GCC Pre IPO Fund	3,681	(17)	42	34	-	3,740
VCBank Investment Projects Mudarabah	13,165	(13,404)	-	257	(18)	-
	16,846	(13,421)	42	291	(18)	3,740

	2014 USD '000	2013 USD '000
Investment in equities	**3,877**	3,722
Balances with banks	**2**	18
Total as at 30 June	**3,879**	3,740

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 VCBank 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. The Bank's registered office is Building 247, Road 1704, Block 31, Diplomatic Area, Kingdom of Bahrain.

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, comparative figures included in the consolidated statements of 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 18 months ended 30 June 2013 and therefore are not necessarily comparable. These consolidated financial statements are prepared for the 12 month period ended 30 June 2014. 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 21 July 2014.

2 BASIS OF PREPARATION

STATEMENT OF COMPLIANCE
The consolidated financial statements of the Group have been prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation (AAOIFI) for Islamic Financial Institutions 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. In accordance with the requirements of AAOIFI, for matters which are not covered by AAOIFI standards, the Group uses relevant International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB").

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) unless otherwise indicated.

BASIS OF CONSOLIDATION
The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries as at 30 June each year. 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 financial information of the subsidiary is prepared using accounting policies consistent with the Bank.

Subsidiaries are fully 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. Control is achieved where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed off during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal as appropriate.

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

Non-controlling interests, if any, represents the portion of net income and net assets not held, directly or indirectly by the Group and are presented separately in the consolidated statement of income and within owners' equity in the consolidated statement of financial position, separately from the equity attributable to shareholders of the parent.

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 or 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, such as 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 country risk, illiquidity discounts, etc. 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 NEW AND AMDENDED STANDARDS AND INTERPRETATIONS

Standard issued and effective for adoption from 1 January 2013

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous year, except for the adoption of the following new standard effective as of 1 January 2013:

FAS 26 Investment in real estate

The Group has adopted FAS 26 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investment in real estate that is acquired for the purpose of earning periodical income or held for future capital appreciation, or both. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, an entity has the option to adopt either the fair value model or the cost model and shall apply that policy consistently to all of its investment in real estate. The Group has opted for the cost model. The adoption of FAS 26 had no impact on the Group's consolidated financial statements.

New standards, amendments and interpretations issued but not yet effective for adoption

There are no AAOIFI accounting standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2014 that would be expected to have a material impact on the Group.

5 SUMMARY OF 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.

(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 assets.

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 assets.

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

(ii) Classification of financial assets and liabilities

The Group classifies financial assets under the following 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, cost.

Fair value measurement

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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 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.

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 bid prices prevailing on the reporting date;

(ii) For investments in unit funds, fair value is determined based on the latest net asset value as of the reporting date provided by the fund manager; and

(iii) For unquoted investments, where the fair values cannot be derived from active markets, fair values 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 based on various estimates and 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.

(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, being 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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 the consolidated statement of income.

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Group's investments in its joint venture are accounted for using the equity method on the face of the consolidated statement of income in 'Share of loss of associates and joint venture'.

The Group has an interest in a joint venture 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.

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 venture 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.

If the entity has made the decision to sell an investment in real estate and expects the sale to occur within twelve months of the end of its reporting period, the investment shall be reclassified in the statement of financial position as 'investment in real estate held-for-sale'. Depreciation on investment in real estate carried at cost is discontinued from the date of such reclassification and the investment shall be carried at the lower of its carrying value and expected fair value less costs to sell (net realisable value). Any adjustment shall be recognised in the consolidated statement of income.

However, if the investment in real estate is not sold within twelve months (except for delays in conclusion of a sale transaction in its normal course of business beyond the control of the entity) or the plan to sell has been discontinued, the asset is reclassified to its previous classification. For investment in real estate carried at cost, the asset is remeasured to the lower of its recoverable amount and the carrying amount that would have been recognised if the asset would not have been classified as held-for-sale. The resulting adjustment is recognised in the consolidated statement of income of the period when reclassification is made.

(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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Dividends

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

(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.

(iv) 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.

(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 (SIO) scheme, which is a "defined contribution scheme" in nature, 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. The Bank's obligations are limited to these contributions, which are expensed when 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, 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.

(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 VCBank Building.
MENA SME Fund Manager Limited	2006	Cayman Islands	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.
VCBank 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 as follows:

At 30 June 2014	Fair value through profit or loss USD '000	Available-for-sale USD '000	Amortised cost / cost USD '000	Total USD '000
ASSETS				
Balances with banks	-	-	2,797	2,797
Placements with financial institutions	-	-	9,414	9,414
Investments	93,657	52,084	-	145,741
Receivable from investment banking services	-	-	31,335	31,335
Funding to project companies	-	-	14,083	14,083
Other assets	-	-	8,626	8,626
TOTAL FINANCIAL ASSETS	93,657	52,084	66,255	211,996
Islamic financing payable	-	-	20,188	20,188
Other liabilities	-	-	3,550	3,550
TOTAL FINANCIAL LIABILITIES	-	-	23,738	23,738
OFF BALANCE SHEET ITEMS Equity of investment account holders	-	3,877	2	3,879

At 30 June 2013	Fair value through profit or loss USD '000	Available-for-sale USD '000	Amortised cost / cost USD '000	Total 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
Islamic financing payable	-	-	13,011	13,011
Other liabilities	-	-	927	927
TOTAL FINANCIAL LIABILITIES	-	-	13,938	13,938
OFF BALANCE SHEET ITEMS Equity of investment account holders	-	3,722	18	3,740

8 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	30 June 2014 USD '000	30 June 2013 USD '000
Short-term placements	**9,428**	4,725
Less: Deferred profits	**(14)**	(5)
	9,414	4,720

Short-term placements comprise commodity murabaha and wakala deals entered into for cash management purposes with local Islamic banks of good credit standing. These carry annual profit rates ranging between 0.20% and 2.00% (2013: 1.75% and 3.90%) 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 2014 USD '000	30 June 2013 USD '000
Investments at fair value through profit or loss		
Quoted equities held for trading	**897**	93
Unquoted		
Equities	**79,314**	70,495
Fund	**13,446**	13,971
	93,657	84,559
Available-for-sale investments		
Quoted equities	**2,528**	1,577
Unquoted equities	**48,376**	42,918
Managed fund - at net asset value	**-**	13
Short term liquidity certificates	**1,180**	2,500
	52,084	47,008
	145,741	131,567

Investments in unquoted equities are carried at cost less impairment in the absence of reliable measure of fair value. Short term liquidity certificates comprise Shari'ah compliant asset backed certificates for which the carrying value approximates its fair value.

These investments comprise equites in the following market segments:

	30 June 2014 USD '000	30 June 2013 USD '000
Real estate projects	**14,388**	11,216
Business development projects	**16,192**	16,192
Healthcare projects	**12,960**	10,160
Financial services	**1,915**	3,248
Shipping	**4,101**	4,101
Oil and Gas	**-**	514
	49,556	45,431

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

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

The Group has the following associates and joint venture which are accounted under the equity method as at 30 June:

Name of associate	Nature of business	Country of incorporation	% holding 30 June 2014	% holding 30 June 2013
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 (HoD)*	Software development	Kingdom of Saudi Arabia	**-**	49
Venture Capital Fund	Small & medium enterprises	Kingdom of Bahrain	**30**	30

* During the year, the Bank exited its investment in HoD through a sale transaction to a shareholder of HoD.

Name of joint venture	Nature of business	Country of incorporation	% holding 30 June 2014	% holding 30 June 2013
Global Real Estate Co. W.L.L.	Real estate development	Kingdom of Bahrain	**50**	50

The carrying value comprises:	30 June 2014 USD '000	30 June 2013 USD '000
Associates	**3,699**	4,114
Joint venture	**24,148**	20,919
	27,847	25,033

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

	Year ended 30 June 2014 USD '000	1 January 2012 to 30 June 2013 USD '000
At 1 July / 1 January	**25,033**	29,474
Redemption / sale of investment	**-**	(2,370)
Capitalisation of funding*	**3,267**	-
Share of losses of associates and joint venture, net	**(453)**	(1,812)
Impairment allowance (note 25)	**-**	(259)
At 30 June	**27,847**	25,033

* During the year the Group capitalised its fundings provided to the joint venture (JV) as a part of JV capital, with no changes in the interest held by the Group.

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

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

	30 June 2014 USD '000	30 June 2013 USD '000
Total assets	**86,496**	92,152
Total liabilities	**27,033**	38,823
Total revenues for the year / period	**697**	6,706
Total net loss for the year / period	**(1,077)**	(5,805)

11 INVESTMENT PROPERTY

This comprises a plot of land located in the Kingdom of Bahrain in which the Bank held an ownership interest of 90%. During the year the Bank sold its entire interest in the investment property to a proposed development project in which two members of the Bank's board of directors hold a majority stake (refer note 28). The Bank will hold 18% stake in the proposed development company which is classified as an available-for-sale investment. As of 30 June 2014, the legal and regulatory formalities relating to the incorporation of the development company is in progress.

The Bank realised a gain of USD 3,253 thousand from the sale which has been recognised in the statement of income.

12 RECEIVABLES

	30 June 2014 USD '000	30 June 2013 USD '000
Receivable from investment banking services	**31,680**	22,893
Receivable on sale of investment property (note 28)	**9,906**	-
	41,586	22,893
Less: Specific impairment provision	**(10,251)**	(9,701)
	31,335	13,192

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

	Year ended 30 June 2014 USD '000	1 January 2012 to 30 June 2013 USD '000
At 1 July / 1 January	**9,701**	10,209
Reversal	**-**	(160)
Write-off	**-**	(653)
Transfer from collective impairment provision	**-**	150
Charge for the year / period (note 25)	**550**	155
At 30 June	**10,251**	9,701

13 FUNDING TO PROJECT COMPANIES

	30 June 2014 USD '000	30 June 2013 USD '000
Gross funding	**34,802**	40,117
Less: Impairment provision	**(20,719)**	(27,259)
	14,083	12,858

These relate to 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 or on realisation of cash flows from sale of the underlying assets or through 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 impairment provision for funding to project companies is as follows:

	Year ended 30 June 2014 USD '000	1 January 2012 to 30 June 2013 USD '000
At 1 July / 1 January	**27,259**	32,567
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 year / period (note 25)	**260**	871
Collective impairment charge for the year / period (note 25)	**540**	2,368
Recovery of impaired funding to a project company (note 25)	**(4,949)**	-
Release of collective impairment provision (note 25)	**(2,391)**	(5,300)
At 30 June	**20,719**	27,259

14 OTHER ASSETS

	30 June 2014 USD '000	30 June 2013 USD '000
Advances to acquire investments	**7,065**	7,353
Project costs recoverable	**1,592**	1,497
Dividend receivable	**993**	1,075
Other receivables	**1,586**	1,656
Less: Specific impairment provision	**(2,335)**	(2,335)
	8,901	9,246

Movement in specific impairment provisions is as follows:

	Year ended 30 June 2014 USD '000	1 January 2012 to 30 June 2013 USD '000
At 1 July / 1 January	**2,335**	1,680
Reversal of provision	**-**	(145)
Transfer from collective impairment provision	**-**	500
Charge for the year / period (note 25)	**-**	300
At 30 June	**2,335**	2,335

15 PROPERTY AND EQUIPMENT

	Building USD '000	Office equipment USD '000	Furniture and fixtures USD '000	Motor vehicles USD '000	Total USD '000
Cost					
At 1 July 2013	10,098	1,528	4,841	483	16,950
Additions during the year	-	12	-	-	12
Reclassification of fixed assets	-	116	(116)	-	-
Disposal	-	-	(28)	-	(28)
At 30 June 2014	**10,098**	**1,656**	**4,697**	**483**	**16,934**
Depreciation					
At 1 July 2013	976	1,411	4,465	186	7,038
Charge for the year	278	161	112	89	640
Disposal	-	-	(28)	-	(28)
At 30 June 2014	**1,254**	**1,572**	**4,549**	**275**	**7,650**
Net book value at 30 June 2014	**8,844**	**84**	**148**	**208**	**9,284**
Net book value at 30 June 2013	9,122	117	376	297	9,912

16 ISLAMIC FINANCING PAYABLE

	Note	30 June 2014 USD '000	30 June 2013 USD '000
Medium term borrowing	16.1	**10,174**	-
Short term borrowings	16.2	**10,014**	13,011
		20,188	13,011

16.1 The medium term borrowing of USD 10 million (2013: nil) carries a profit rate of 7.75% per annum, maturing on 9 October 2016. The borrowing is secured by the Group's interest in a self-occupied property.

16.2 These consist of short-term wakala borrowings from local Islamic banks with maturities of not more than one month. These borrowings carry profit rates ranging from 0.50% to 2.50% (2013: 0.75% to 2.85%).

17 OTHER LIABILITIES

	30 June 2014 USD '000	30 June 2013 USD '000
Accounts payable	**3,550**	927
Provisions and accruals	**1,817**	1,603
Deferred income	**1,348**	1,294
Board of Directors' remuneration (note 28)	**428**	-
Other	**84**	139
	7,227	3,963

18 SHARE CAPITAL

	30 June 2014 USD '000	30 June 2013 USD '000
Authorised: 500,000,000 ordinary shares of USD 1 each	**500,000**	500,000
Issued and fully paid up: 190,000,000 shares of USD 1 each (2013: 250,000,000 shares of USD 1 each)	**190,000**	250,000

a) 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.

b) Statutory reserve
As required by the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the profit for the year amounting to USD 1,502 thousand (2013: nil) has been transferred to a statutory reserve. Additionally, an amount of USD 2,023 thousand (2013: nil) was also transferred to statutory reserve in December 2013 as explained in (d) below, bringing the total transfer to statutory reserve for the year to USD 3,525 thousand (2013: nil). 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.

c) 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 fair value reserve in equity. Upon disposal of such assets, the related cumulative gains or losses are transferred to the consolidated statement of income.

d) Capital restructuring
Following necessary regulatory approvals, at the Extraordinary General Meeting ("EGM") of the shareholders held on 9 December 2013, the shareholders resolved to absorb the past accumulated losses of the Bank against available balances in share premium, statutory reserve and employee share ownership plan reserve ("ESOP") totalling USD 44,192 thousand, and to reduce the paid up share capital of the Bank by USD 47,236 thousand.
The shareholders also resolved to reduce the shares allocated to the ESOP to USD 10,000 thousand from the existing USD 22,764 thousand.

Furthermore, at the Annual General Meeting of the shareholders held on 9 December 2013, the shareholders re-solved to transfer an amount of USD 2,023 thousand from the net profits of the period ended 30 June 2013 to the statutory reserve. The effect of these shareholder resolutions have been reflected in the Bank's paid up share capital and reserves reported in these consolidated financial statements.

e) Proposed dividend
The Board of Directors have proposed a cash dividend of USD 5 cents per share totalling USD 9,238 thousand from the earnings of 2014 (2013: nil). Payment of this dividend is subject to approval by the Central Bank of Bahrain and shareholders at the Annual General Assembly of Shareholders' Meeting.

19 INCOME FROM INVESTMENT BANKING SERVICES

	Year ended 30 June 2014 USD '000	1 January 2012 to 30 June 2013 USD '000
Investment structuring income	**12,718**	28,474
Investment management and arrangement fees	**4,213**	6,579
	16,931	35,053

20 FINANCE INCOME AND EXPENSE

	Year ended 30 June 2014 USD '000	1 January 2012 to 30 June 2013 USD '000
Finance income		
Income from placements with financial institutions	**202**	350
Income from funding to project companies	**-**	235
	202	585
Finance expense		
Profit on murabaha and wakala borrowings	**(848)**	(269)
Net finance (expense) income	**(646)**	316

21 RENTAL AND OTHER INCOME

	Year ended 30 June 2014 USD '000	1 January 2012 to 30 June 2013 USD '000
Rental and property management income	**1,447**	2,647
Other income	**1,827**	27
	3,274	2,674

Other income for the year ended 30 June 2014 mainly comprises USD 1,294 thousand (2013: nil) of profit recognised and collected on mezzanine fundings provided to a project company. These were not previously recognised due to uncertainties on the project's capacity to pay.

22 FAIR VALUE LOSSES ON INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS - NET

	Year ended 30 June 2014 USD '000	1 January 2012 to 30 June 2013 USD '000
Trading securities	**17**	(15)
Investments designated at fair value through profit or loss	**(2,250)**	(7,300)
	(2,233)	**(7,315)**

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

30 June 2014	Trading USD '000	Designated at fair value USD '000	Total USD '000
Fair value gains	**17**	**-**	**17**
Fair value losses	**-**	**(2,250)**	**(2,250)**
	17	**(2,250)**	**(2,233)**

30 June 2013	Trading USD '000	Designated at fair value USD '000	Total USD '000
Fair value gains	-	-	-
Fair value losses	(15)	(7,300)	(7,315)
	(15)	**(7,300)**	(7,315)

23 OTHER GAINS ON INVESTMENTS - NET

	Year ended 30 June 2014 USD '000	1 January 2012 to 30 June 2013 USD '000
Gain on sale of available for sale investment - net	**427**	1,124
Gain on sale of investment designated at fair value through profit or loss	**273**	-
Other	**-**	**19**
	700	**1,143**

24 STAFF COSTS

	Year ended 30 June 2014 USD '000	1 January 2012 to 30 June 2013 USD '000
Salaries and benefits	**7,366**	7,744
Social insurance expenses	**414**	699
Expenses	**4**	9
	7,784	8,452

25 IMPAIRMENT PROVISIONS RELEASED - NET

	Specific impairment provisions relating to						
30 June 2014	Investments USD '000	Investments in associates and JV USD '000	Receivable from investment banking services (Note 12) USD '000	Funding to project companies (Note 13) USD '000	Other assets (Note 14) USD '000	Collective impairment provision* (Note 13) USD '000	Total USD '000
Provision at the beginning of the period	(28,650)	(5,173)	(9,701)	(23,400)	(2,335)	(3,859)	**(73,118)**
Charge for the year	(1,000)	-	(550)	(260)	-	(540)	**(2,350)**
Release from collective impairment provision	-	-	-	-	-	2,391	**2,391**
Impairment provisions (charged) / released	(1,000)	-	(550)	(260)	-	1,851	**41**
Recovery of impaired funding to a project company	-	-	-	4,949	-	-	**4,949**
Write-offs	910	-	-	-	-	-	**910**
Provision at the end of the year	**(28,740)**	**(5,173)**	**(10,251)**	**(18,711)**	**(2,335)**	**(2,008)**	**(67,218)**

* Collective impairment provision relates to funding to project companies (refer to note 13).

25 IMPAIRMENT PROVISIONS RELEASED - NET (continued)

	Specific impairment provisions relating to						
30 June 2013	Investments USD '000	Investments in associates and JV USD '000	Receivable from investment banking services (Note 12) USD '000	Funding to project companies (Note 13) USD '000	Other assets (Note 14) USD '000	Collective impairment provision* (Note 13) USD '000	Total USD '000
Provision at the beginning of the period	(30,763)	(4,442)	(10,209)	(23,242)	(1,680)	(9,325)	(79,661)
Charge for the year	(117)	(259)	(155)	(871)	(300)	(2,368)	(4,070)
Release from collective impairment provision	-	-	-	-	-	5,300	5,300
Impairment provisions (charged) / released	(117)	(259)	(155)	(871)	(300)	2,932	1,230
Transfers	(1,117)	(472)	-	-	-	-	(1,589)
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
Provision at the end of the year	(28,650)	(5,173)	(9,701)	(23,400)	(2,335)	(3,859)	(73,118)

* Collective impairment provision relates to funding to project companies (refer to note 13).

26 OTHER EXPENSES

	Year ended 30 June 2014 USD '000	1 January 2012 to 30 June 2013 USD '000
Rent and office expenses	**1,608**	2,595
Publicity, conferences and promotion	**149**	182
Board of directors and Shari'ah supervisory board	**466**	583
Other	**58**	44
	2,281	3,404

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. 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. Consequent to the share capital reduction completed during the year as explained in note 18, this reserve was reduced to USD nil as at 30 June 2014 (30 June 2013: USD 5.349 million).

The shareholders have authorised issue of up to 10 million shares (2013: 24.852 million shares) to the ESOP under this scheme. The Group has incorporated VCBank 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 and the amounts of writebacks during the year for employees no longer in service amounted to USD nil (2013: vesting charge of nil and write back of USD 244 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 2014		30 June 2013	
	No of units (thousands)	WAPP $	No of units (thousands)	WAPP $
Outstanding at 1 July 2013 / 1 January 2012	**5,637**	**1.088**	6,657	1.085
Relating to leavers during the year / period	-	-	(1,020)	1.064
Outstanding at 30 June excluding bonus entitlements	**5,637**	**1.088**	5,637	1.088
Entitlements to bonus units from past share dividends	**786**		786	
Total units including bonus entitlements	**6,423**		6,423	

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 2014 and, accordingly, no units were exercisable for vesting as at 30 June 2014. However, as of 30 June 2014, the Group is reviewing its ESOP in the light of the capital restructuring (note 18) and the Central Bank of Bahrain's new remuneration regulations. Management anticipate that decisions in respect of the vesting and possible changes to the ESOP will be made on completion of this review.

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.

28 RELATED PARTY TRANSACTIONS (continued)

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

30 June 2014	Associates and joint venture USD '000	Board members/ key management personnel/ Shari'ah board members/ external auditors 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	-	-	1,098	-	**1,098**
Placements with financial institutions	-	-	981	-	**981**
Investments	-	-	47,278	-	**47,278**
Investments in associates and joint venture	27,847	-	-	-	**27,847**
Receivables	2,053	9,906	4,426	-	**16,385**
Funding to project companies	5,211	-	2,808	-	**8,019**
Other assets	58	-	225	-	**283**
Liabilities					
Employee accruals	-	1,586	-	-	**1,586**
Other liabilities	-	428		-	**428**
Income					
Income from investment banking services	2,218	-	-	-	**2,218**
Share of loss of associates and joint venture accounted for using the equity method	(453)	-	-	-	**(453)**
Other income	-	-	1,981	-	**1,981**
Realised gain on sale of investment property	-	3,253	-	-	**3,253**
Expenses (excluding compensation for key management personnel)					
Impairment allowances against investments	-	-	-	-	**-**
Impairment allowances against receivables	260	-	-	-	**260**
Commitments and contingencies	956	-	-	-	**956**
Equity of investment account holders	-	-	-	-	**-**

28 RELATED PARTY TRANSACTIONS (continued)

30 June 2013	Associates and joint venture USD '000	Board members/ key management personnel/ Shari'ah board members/ external auditors 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	-	-	1,080	-	**1,080**
Placements with financial institutions	-	-	920	-	**920**
Investments	-	-	46,623	-	**46,623**
Investments in associates and joint venture	25,033	-	-	-	**25,033**
Receivables	34	-	3,800	-	**3,834**
Funding to project companies	7,314	-	2,794	-	**10,108**
Other assets	56	-	89	-	**145**
Liabilities					
Employee accruals	-	1,397	-	-	**1,397**
Income					
Income from investment banking services	2,344	-	-	-	**2,344**
Share of 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	824	-	-	-	**824**
Equity of investment account holders	-	-	-	-	**-**

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 year / period end were:

Categories*

	30 June 2014		30 June 2013	
	Number of Shares	Number of Directors	Number of Shares	Number of Directors
Less than 1%	**9,393,341**	**7**	9,393,341	7
1% up to less than 5%	**35,520,848**	**5**	35,520,848	5

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

Details of material contracts involving directors include:

	30 June 2014 USD '000	30 June 2013 USD '000
Directors' participation in investments promoted by the Group	**45,465**	23,909

Compensation of directors and key management personnel are as follows:

	Year ended 30 June 2014 USD '000	1 January 2012 to 30 June 2013 USD '000
Board member fees	**298**	289
Salaries and other short-term benefits	**1,731**	1,859
	2,029	2,148

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.

Board of Directors' remuneration
During the year the Nomination and Remuneration Committee of the Board approved the payment of Board of Directors' remuneration of USD 428 thousand (2013: nil), the payment of which is subject to the approval of the shareholders' general assembly.

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 year ended 30 June 2014 is US cents 0.79 for every share held (2013: US cents 0.5752 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 year (2013: 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.

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 2014	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	-	2,797	-	-	2,797	-	-	**2,797**
Placements with financial institutions	-	9,136	-	278	9,414	-	-	**9,414**
Investments	144,561	-	-	1,180	1,180	-	-	**145,741**
Investments in associates and joint venture	27,847	-	-	-	-	-	-	**27,847**
Investment property	-	-	-	-	-	-	-	**-**
Receivables	-	2,894	15,206	-	18,100	11,699	1,536	**31,335**
Funding to project companies	-	-	-	-	-	11,957	2,126	**14,083**
Other assets	557	9	1,843	5,514	7,366	968	10	**8,901**
Property and equipment	9,284	-	-	-	-	-	-	**9,284**
Total assets	**182,249**	**14,836**	**17,049**	**6,972**	**38,857**	**24,624**	**3,672**	**249,402**
Liabilities								
Islamic financing payables	-	10,174	-	-	10,014	10,174	-	**20,188**
Employee accruals	4,469	-	1,500	-	1,500	-	-	**5,969**
Other liabilities	18	202	1,906	395	2,503	3,050	1,656	**7,227**
Total liabilities	**4,487**	**10,216**	**3,406**	**395**	**14,017**	**13,224**	**1,656**	**33,384**
Net liquidity gap	177,762	4,620	13,643	6,577	24,840	11,400	2,016	240,858
Cumulative liquidity gap	177,762	182,382	196,025	202,602	227,442	238,842	240,858	-

33 MATURITY PROFILE (continued)

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
Receivables	-	74	2,650	-	2,724	8,933	1,535	13,192
Funding to project companies	-	4,227	-	-	4,227	6,305	2,236	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	-

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

a) Industry sector

30 June 2014	Trading and Manufacturing USD '000	Banks and financial Institutions USD '000	Real estate USD '000	Oil and Gas USD '000	Health care USD '000	Techno-logy USD '000	Shipping USD '000	Other USD '000	Total USD '000
Assets									
Balances with banks	-	2,797	-	-	-	-	-	-	**2,797**
Placements with financial institutions	-	9,414	-	-	-	-	-	-	**9,414**
Investments	28,080	23,224	17,878	11,483	12,961	1,950	10,329	39,836	**145,741**
Investment in associates and joint venture accounted under the equity method	-	-	24,148	-	809	-	-	2,890	**27,847**
Investment property	-	-	-	-	-	-	-	-	**-**
Receivables	955	80	14,178	1,838	2,630	433	1,815	9,406	**31,335**
Funding to project companies	8,072	21	780	-	3,864	1,346	-	-	**14,083**
Other assets	386	-	25	72	3	26	5,572	2,817	**8,901**
Property and equipment	-	-	8,420	-	-	-	-	864	**9,284**
Total assets	**37,493**	**35,536**	**65,429**	**13,393**	**20,267**	**3,755**	**17,716**	**55,813**	**249,402**
Liabilities									
Islamic financing payable	-	20,188	-	-	-	-	-	-	**20,188**
Employee accruals	-	-	-	-	-	-	-	5,969	**5,969**
Other liabilities	-	-	-	-	-	-	-	7,227	**7,227**
Total liabilities	**-**	**20,188**	**-**	**-**	**-**	**-**	**-**	**13,196**	**33,384**
Commitments and contingencies	12,098	10,000	23,244	-	-	340	-	-	**45,682**
Equity of investment account holders	-	3,098	-	-	-	-	-	781	**3,879**

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

a) Industry sector (continued)

30 June 2013	Trading and Manufacturing USD '000	Banks and financial Institutions USD '000	Real estate USD '000	Oil and Gas USD '000	Health care USD '000	Techno-logy USD '000	Shipping USD '000	Other USD '000	Total USD '000
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 venture accounted under the equity method	-	1,656	20,919	-	1,066	-	-	1,392	25,033
Investment property	-	-	9,130	-	-	-	-	-	9,130
Receivables	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

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 year / period ended:

30 June 2014	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	2,797	-	-	-	-	**2,797**
Placement with financial institutions	9,414	-	-	-	-	**9,414**
Investments	79,857	52,234	3,322	-	10,328	**145,741**
Investment in associates and joint venture accounted under the equity method	26,514	1,333	-	-	-	**27,847**
Investment property	-	-	-	-	-	**-**
Receivables	16,386	10,398	2,736	1	1,814	**31,335**
Funding to project companies	4,665	8,072	-	1,346	-	**14,083**
Other assets	1,536	1,793	-	-	5,572	**8,901**
Property and equipment	9,284	-	-	-	-	**9,284**
Total assets	**150,453**	**73,830**	**6,058**	**1,347**	**17,714**	**249,402**
Liabilities						
Islamic financing payable	20,188	-	-	-	-	**20,188**
Employee accruals	5,969	-	-	-	-	**5,969**
Other liabilities	7,227	-	-	-	-	**7,227**
Total liabilities	**33,384**	**-**	**-**	**-**	**-**	**33,384**
Commitments and contingencies	33,244	12,098	-	340	-	**45,682**
Equity of investment account holders	3,879	-	-	-	-	**3,879**

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

(b) Geographic region (continued)

30 June 2013	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	5,903	-	-	-	-	5,903
Placement with financial institutions	4,720	-	-	-	-	4,720
Investments	68,498	50,240	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
Receivables	3,397	3,087	2,650	2,244	1,814	13,192
Funding to project companies	4,466	6,609	-	1,783	-	12,858
Other assets	1,536	1,242	789	76	5,603	9,246
Property and equipment	9,912	-	-	-	-	9,912
Total assets	131,203	62,570	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

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 2014, the Group had fiduciary assets under management of USD 993 million (30 June 2013: USD 925 million).

36 COMMITMENTS AND CONTINGENCIES

The Group has issued financial guarantees totalling USD 34.73 million (30 June 2013: USD 23.97 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 0.96 million (30 June 2013: USD 2.96 million) and commitments to invest of USD 10.00 million (30 June 2013: USD 10.00 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 2014. The Group does not hold collateral against any of its exposures as at 30 June 2014 (30 June 2013: nil).

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 released USD 1.8 million (2013: provided USD 2.9 million) of collective impairment provisions against its receivable exposure during the period.

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

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

	30 June 2014 USD '000	30 June 2013 USD '000
Receivables	**22,200**	15,612
Funding to project companies	**34,802**	40,117
Other assets	**7,813**	7,114
Total	**64,815**	62,843

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 2014, the total credit exposure to individual counterparties which comprised 10% or more of the Group's equity was USD 43.03 million relating to one counterparty (30 June 2013: USD 38.01 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.

The following table 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 2014	Gross undiscounted cash flows Up to 3 months USD '000	3 to 6 months USD '000	6 months to 1 year USD '000	1 to 3 years USD '000	Over 3 years USD '000	Total USD '000
Liabilities						
Islamic financing payables	10,014	-	-	11,963	-	21,977
Employee accruals	4,469	1,500	-	-	-	5,969
Other liabilities	220	1,906	395	3,050	1,656	7,227
Total financial liabilities	**14,703**	**3,406**	**395**	**15,013**	**1,656**	**35,173**
Commitments and contingencies	22,098	23,244	-	-	340	45,682
Equity of investment account holders	2	-	-	3,877	-	3,879

30 June 2013	Gross undiscounted cash flows Up to 3 months USD '000	3 to 6 months USD '000	6 months to 1 year USD '000	1 to 3 years USD '000	Over 3 years USD '000	Total USD '000
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

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 2014 USD '000	30 June 2013 USD '000
Placements with financial institutions	**1.07%**	2.27%
Islamic financing payables	**2.16%**	2.20%

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:

	Effect on consolidated statement of income	
	30 June 2014 USD '000	30 June 2013 USD '000
100 bps parallel increase / (decrease)		
Placements with financial institutions	**± 94**	± 47
Funding to project companies	**± 141**	± 76
Islamic financing payables	**± 202**	± 130

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:

	30 June 2014 USD '000	30 June 2013 USD '000
Kuwaiti Dinars	**3,293**	1,590
Great Britain Pounds	**6,058**	4,938
Euro	**11**	10

(ii) Currency risk (continued)

The table below indicates the currencies to which the Group had significant exposure at 30 June 2014 and 30 June 2013 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.

		30 June 2014		30 June 2013	
	Change in currency rates	Effect on profit USD '000	Effect on equity USD '000	Effect on profit USD '000	Effect on equity USD '000
Kuwaiti Dinars	+10%	**76**	**253**	1	158
Great Britain Pounds	+10%	**230**	**133**	344	150
Euro	+10%	**1**	**-**	1	-
Kuwaiti Dinars	-10%	**(329)**	**-**	(159)	-
Great Britain Pounds	-10%	**(363)**	**-**	(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 2014		30 June 2013	
		Effect on profit USD '000	Effect on equity USD '000	Effect on profit USD '000	Effect on equity USD '000
Trading securities	+1%	**9**	**-**	1	-
Available-for-sale	+1%	**-**	**25**	-	16
Trading securities	-1%	**(9)**		(1)	
Available-for-sale	-1%	**-**	**(25)**	-	(16)

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 the 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 was as follows:

	30 June 2014 USD '000	30 June 2013 USD '000
Total risk weighted assets	**770,344**	679,863
Tier 1 capital	**320,215**	323,691
Tier 2 capital	**17,135**	110
Total regulatory capital	**337,350**	323,801
Total regulatory capital expressed as a percentage of total risk weighted assets	**43.79%**	47.63%
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.

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 year / period.

30 June 2014	Level 1 USD '000	Level 2 USD '000	Level 3 USD '000	Total USD '000
Held for trading	897	-	-	**897**
Fair value through profit or loss	-	-	92,760	**92,760**
Available-for-sale	2,528	-	-	**2,528**
	3,425	**-**	**92,760**	**96,185**

30 June 2013	Level 1 USD '000	Level 2 USD '000	Level 3 USD '000	Total USD '000
Held for trading	93	-	-	93
Fair value through profit or loss	-	-	84,466	84,466
Available-for-sale	1,577	13	-	1,590
	1,670	13	84,466	86,149

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

	30 June 2014 USD '000	30 June 2013 USD '000
At 1 July / 1 January	**84,466**	76,050
Fair value losses recognised in the consolidated statement of income - net	**(2,250)**	(7,300)
Investments acquired during the year / period - net	**10,544**	15,716
At 30 June	**92,760**	84,466

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 are typically projected for three years and then a terminal value has been estimated using a combination of value based on forward multiples and perpetual growth models applied on the cash flows of the last year of the estimate. The discount rates used for computing the present value of future cash flows range from 8 % – 17% and growth rates used range from 2% - 6%. 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 growth rates are based on the GDP growth rates of the economic areas of the investees. The Group has also made use of illiquidity and marketability discounts where considered appropriate.

The potential income effect of 1% increase in the discount rates, which is a key variable used in the valuation technique, would decrease the fair values by approximately USD 941 thousand, whereas a 1% decrease in the discount rate would increase the fair values by approximately USD 971 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 2,732 thousand or reduce the fair values by approximately USD 2,732 thousand respectively.

39 COMPARATIVE FIGURES

In the Group's audited consolidated financial statements for the year ended 30 June 2014 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 previously reported financial position or income.

BASEL II PILLAR 3 DISCLOSURES

30 June 2014

CONTENTS

1 INTRODUCTION

These disclosures have been prepared in accordance with the Central Bank of Bahrain's (CBB) requirements outlined in the Public Disclosure Module ("PD"), Chapter 1.3 of the CBB Rule Book, Volume II for Islamic Banks. These disclosures follow the requirements of Basel II - Pillar 3 and the Islamic Financial Services Board's (IFSB) recommended disclosures for Islamic banks, and should be read in conjunction with the disclosures made in the Bank's audited financial statements for the year ended 30 June 2014.

Pillar 3 disclosure requirements are designed to promote market discipline and disclosure by providing information on a firm's risk exposures and risk management processes. The Bank makes these disclosures on a comprehensive basis comprising qualitative and quantitative information annually and on a restricted basis at the half year reporting stage.

The Bank has adopted the Standardised Approach for Credit Risk and Market Risk and follows the Basic Indicator Approach for Operational Risk to determine its capital requirements.

As at 30 June 2014, the Bank's total risk weighted assets amounted to US$ 770 million; Tier 1 Capital and total regulatory capital amounted to US$ 320 million and US$ 338 million respectively. Accordingly, Tier 1 and Total Capital Adequacy Ratio was 42% and 44% respectively, which exceeds the minimum capital requirements of the CBB of 12%.

2 CAPITAL STRUCTURE

2.1 Capital Base

The authorized share capital of the Bank is US$ 500 million, comprising 500 million common shares of US$ 1 each. The Bank's initial paid up capital was US$ 66 million, which was increased to US$ 150 million in 2007 through a rights issue and a private placement to new strategic investors. In addition, a further 15 million shares were authorized for allocation to the Bank's Employee Share Ownership Plan (ESOP).

The Bank undertook a further capital increase in 2009 which increased its paid up capital to US$ 250 million par value during 2010, comprising 250 million shares of US$ 1 each, including 24.85 million shares allotted to the Bank's ESOP. During 2013, the Bank revised its capital structure to write off accumulated losses against share premium and available reserves and reduction of issued share capital by 20.8%. In addition, the Bank reduced the ESOP shares allocation by approximately 56% to US$ 10 million as detailed in the below table. The changes have been approved by the shareholders in an extraordinary general meeting held on 9 December 2013, and also by the regulators.

Capital structure particulars	Pre As at 30 Jun 2013 (US$ mil)	Post As at 30 Jun 2013 (US$ mil)	Current As at 30 Jun 2014(US$ mil)
Shareholders' capital	227.24	180.00	180.00
ESOP treasury shares (ESOP)	22.76	10.00	10.00
Total	**250.00**	**190.00**	**190.00**
Share premium & reserves	44.44	2.27	4.72
Share premium	28.43	-	-
Statutory reserve	10.41	2.02	3.53
Investments fair value reserve	0.25	0.25	1.20
Employee share ownership reserve	5.35	-	-
Retained earnings (deficit)	(71.20)	18.21	31.30
Total equity (excl. treasury shares)	**200.48**	**200.48**	**216.02**
Book value per share (excl. ESOP treasury shares) - US$	**0.88**	**1.11**	**1.20**

2.2 Group structure:

The Bank has the following operational subsidiaries which are fully consolidated in its consolidated financial statements.

Subsidiary	Country	Capital	Percentage interest
Gulf Projects Company W.L.L	Kingdom of Bahrain	BHD 1,000,000	100%
The Lounge Serviced Offices Co. W.L.L	Kingdom of Bahrain	BHD 20,000	100%
Lime Restaurant Management & Catering Services Co. W.L.L (currently dormant)	Kingdom of Bahrain	BHD 20,000	100%
Mena SME Fund Manager Limited	Cayman Islands	USD 2	100%

2.3 Review of financial performance:

The Bank commenced operations in October 2005 and achieved excellent returns in its initial years. The results for 2010 and 2011 were unfortunately affected by the regional market turmoil, as a consequence of which significant impairment provisions and fair value losses were recorded resulting in net losses for 2010 and 2011. However, the Bank has witnessed a major turnaround during the current period, registering a net profit of US$ 21 million for the 18 month period ended 30 June 2013 and a net profit of US$ 14.59 million for the year ended 30 June 2014.

Particulars	June 2014	December 2013 (Half year)	June 2013 (18 mths)	December 2012	December 2011	December 2010	December 2009
Net profit (US$ m)	14.59	4.29	21.15	18.51	(58.67)	(47.60)	10.88
ROC (return on paid up capital)	8.1%	4.8%	5.5%	7.2%	-22.9%	-18.6%	6.3%
Head count	45	46	45	42	66	76	73
Total investments / Total assets	70%	67%	75%	76%	76%	71%	64%
Leverage (total liabilities / total equity)	15%	20%	11%	6%	10%	4%	25%
Retained earnings / paid up capital	17%	14%	-22%	-23%	-30%	-7%	20%

As shown by the consolidated financial statements, income from investment banking services is the main contributor to net income. The Bank's investment team has a solid pipeline of investment deals which are expected to grow its fiduciary assets under management going forward and thereby increase the proportion of recurring income from management fees to provide an increased level of sustainable income.

2 CAPITAL STRUCTURE (continued)

Capital Adequacy

2.4 The Bank's capital adequacy management program ensures that the Bank not only complies with regulatory capital requirements, but also continues to maintain a strong capital base to support its growing lines of business.

2.5 To manage its capital the Bank employs a risk adjusted measure of capital adequacy (i.e. Capital Adequacy Ratio or "CAR") based on the local regulatory regime implemented by the CBB that is consistent with the Basel II guidelines issued by the Basel Committee on Banking Supervision's International Convergence of Capital Measurement and Capital Standards.

2.6 Effective January 2008, the CBB has required all Bahrain banking institutions to implement Pillar 1 of these Basel II guidelines that deals with the maintenance of a minimum level of capital calculated for three major components of risk exposures i.e. credit risk (including investment risks), operational risk and market risk.

2.7 The Bank uses the Standardised Approach to quantify its credit and market risk weighted exposures and the Basic Indicator Approach to measure its operational risk weighted exposures.

a. Credit risk weighted exposures may be calculated in three different methods of varying degrees of sophistication, namely the Standardized Approach, Foundation Internal Rating Based Approach and Advanced Internal Rating Based Approach. The Bank has adopted the Standardized Approach for credit risk measurement, which uses fixed risk weights for different categories of credit risk.

b. Market risk weighted exposures may be quantified using the Standardized Approach, which uses fixed capital charges for specific categories of market risk, or the Internal Models Approach subject to prior approval by CBB. The Bank uses the Standardized Approach for market risk measurement.

c. For operational risk, there are three different approaches - Basic Indicator Approach, Standardized Approach, and Advanced Measurement Approach. The Bank uses the Basic Indicator Approach, which uses the average of the gross income for the past three years as a basis for the calculation of capital charge for operational risk.

2.8 In determining CAR, the Bank calculates its risk adjusted assets, which are then expressed as a factor of regulatory eligible capital rather than the equity capital appearing in the Bank's statement of financial position. Regulatory capital is composed of two elements:

a. Tier 1 Capital which is the nominal value of paid in capital, audited retained earnings and accumulated reserves arising from the appropriation of current and past years' income and/or retained earnings less treasury stock, minority interests and negative fair value reserves. Local regulations also require that certain investments or exposures should be deducted from Tier 1 capital.

b. Tier 2 Capital, which consists of the qualifying portion of subordinated loans and unrealised gains arising on fair valuation. Under the CBB regulations, the aggregate amount of Tier 2 capital eligible for inclusion in the CAR is limited to no more than 100% of Tier 1 Capital.

2.9 As the Bank has no operating branches outside the Kingdom of Bahrain, it is subject only to the capital requirements of the CBB, which currently requires all financial institutions in Bahrain to maintain a 12% minimum CAR and a 12.5% trigger CAR.

2.10 The Bank's capital adequacy position is reviewed and stress tested regularly for various scenarios given the nature of the Bank's investments in alternative assets. Prudential Returns on the Bank's capital adequacy are filed quarterly with the CBB and reviewed by the external auditors.

2.11 During the year ended 30 June 2014, the Bank continued the development and enhancement of its risk management and internal capital adequacy assessment framework.

2.12 As a further step in mitigating risks, the Bank follows a policy of diversification in its activities and seeks to minimize the risk exposure to particular geographical regions, counterparties, instruments and types of business.

2.13 The quantitative details of the Bank's regulatory capital are depicted in the following tables:

Table 1: Regulatory Eligible Capital as at 30 June 2014

Details of Eligible Capital Base	USD '000 Tier 1	USD '000 Tier 2
Issued and fully paid ordinary shares	190,000	
Less: Employee stock incentive program funded by the Bank (outstanding)	(10,000)	
Legal / statutory reserves	3,525	
Retained profit brought forward	7,360	
Unrealized gains arising from fair valuing equities (45% only)	4,207	
Minority interest in consolidated subsidiaries	125,123	
Tier 1 Capital before PCD deductions	**320,215**	
Current year profits		14,589
Unrealized gains arising from fair valuing equities (45% only)		538
Collective impairment loss provision		2,008
Tier 2 Capital before PCD deductions		**17,135**
Total Available Capital		**337,350**
Net Available Capital	**320,215**	**17,135**
Total Eligible Capital	**337,350**	

2 CAPITAL STRUCTURE (continued)

2.13 Capital Adequacy (continued)

Table 2: Details of exposures and capital requirement

Details of exposures and capital requirement			USD '000
Credit risk:	Gross exposures	Risk weighted exposures	Capital charge
Exposures to banks	26,336	5,269	632
Exposures to corporates	38,847	38,847	4,662
Investments in listed equities in banking book	3,420	3,420	410
Investments in unlisted equities in banking book	175,607	263,410	31,609
Investments in real estate	84,627	169,253	20,310
Premises occupied by the bank	8,816	8,816	1,058
Other exposures	149,111	149,111	17,893
Total credit risk exposure under Standardized Approach	**486,764**	**638,126**	**76,574**
Market risk:			
Trading equities position	897	1,793	215
Foreign exchange position	76,013	76,013	9,122
Total market risk under Standardized Approach	76,910	77,806	9,337
Operational risk under Basic Indicator Approach (ref. below)		54,411	6,529
Total		**770,343**	**92,440**
Total eligible capital - (Tier 1 + Tier 2)		337,350	
Total eligible capital - Tier 1		320,215	
Total Capital Adequacy Ratio (Tier 1 + Tier 2)		43.79%	
Tier 1 Capital Adequacy Ratio		41.57%	

Capital requirement for Operational Risk (Basic Indicator Approach)

	2014	**2013***	**2011**
Gross income for prior three years	30,578	27,460	(8,967)
Average of past 3 years gross income (excl. loss years)	29,019		
Capital requirement for Operational Risk (15%)	4,353		
Risk weighted exposure for Operational Risk	**54,411**		

* annualized

	USD '000
Total unrealized fair value gains / (losses):	Year ended Jun 2014
Unrealized fair value (losses)/ gains recognized in income	(2,233)
Unrealized fair value gains/(losses) recognized in equity during the year	951
Unrealized fair value gains/(losses) recognized in equity at the end of the year	1,196
Cumulative realized gains arising from sales during the year	3,961

2.13 Capital Adequacy (continued)

The maximum and minimum values of each category of market risk exposure each quarter during the period are detailed in the table below:

Table 3 – Details of market risk weighted exposures

USD '000

Particulars	30 Jun 2014	31 Mar 2014	31 Dec 2013	30 Sep 2013	30 Jun 2013	31 Mar 2013	31 Dec 2012	30 Sep 2012	30-Jun 2012	31 Mar 2012	Maxi-mum	Mini-mum
Market risk exposures												
Listed equities held for trading	897	880	115	100	93	95	87	84	77	116	116	77
Foreign currency exposure*	76,013	65,256	78,887	83,493	73,119	75,103	64,274	78,966	1,331	1,387	83,493	1,331
Market risk charge												
Listed equities held for trading	143	141	18	16	15	15	14	13	12	19	143	12
Foreign currency exposure	6,081	5,220	6,311	6,679	5,850	6,008	5,142	6,317	106	111	6,679	106
Total market risk charge	**6,225**	**5,361**	**6,329**	**6,695**	**5,864**	**6,023**	**5,156**	**6,331**	**119**	**130**	**6,823**	**119**
Market risk weighted exposure												
Listed equities held for trading	1,793	1,761	230	199	186	190	173	169	154	232	1,793	154
Foreign currency exposure	76,013	65,256	78,887	83,493	73,119	75,103	64,274	78,966	1,331	1,387	83,493	1,331
Total market risk weighted exposure	**77,806**	**67,017**	**79,117**	**83,692**	**73,305**	**75,293**	**64,447**	**79,135**	**1,485**	**1,619**	**83,692**	**1,485**

* Foreign currency exposure mainly includes exposures to Turkish Lira due to consolidation of an investment in Turkey (Mena Juice Limited) for regulatory purposes.

Table 4 – Details of credit risk weight on Islamic financing contracts at 30 June 2014, which is representative of the average exposure during the year:

USD '000

Asset Categories for Credit Risk	Credit Exposure	Credit Risk Weighted Assets
Commodity murabaha to projects	2,382	2,382
Profit free funding to projects	13,709	15,857
Total Islamic Financing Contracts	**16,091**	**18,239**

3 RISK MANAGEMENT

Risk Governance Structure

3.1 As an Islamic investment bank dealing predominantly in alternative assets, the Bank is exposed to various risks in the normal course of its business. These risks include:

a. Credit and counterparty credit risk
b. Market risk
c. Operational risk
d. Equity risk in the Banking Book (Investment Risk)
e. Liquidity risk
f. Profit margin rate risk in the Banking Book
g. Displaced Commercial Risk (DCR)

3.2 An understanding of and transparency in risk-taking are key elements in the Bank's business strategy. The Bank maintains a prudent and disciplined approach towards risk taking, and embeds a structured risk management process as an integral part of its decision making practice. This risk management process, which is applicable to the various risks the Bank is exposed to, is divided into three key components comprising the following:

a. Risk Identification and Measurement
   i. Procedures for the identification and quantification of risks
   ii. The use of quantitative models and qualitative approaches to assess and manage risks

b. Risk Control
   i. Clearly defined risk exposure limits
   ii. Criteria for risk acceptance based on risk and return as well as other factors
   iii. Portfolio diversification and, where possible, other risk mitigation techniques
   iv. Robust operating policies and procedures
   v. Appropriate Board Committee's authorization and approval for investment transactions

c. Risk Monitoring and Reporting
   i. Ongoing review of exposures and risks by Risk Management Department, including stress testing and frequent reporting to the Board
   ii. Periodic internal audits of the Bank's control environment

3.3 The Bank's Board of Directors through its Risk Committee (a subcommittee of the Board of Directors) has the responsibility for ensuring the establishment and effective implementation of an integrated risk management framework for the Bank. Further, the Risk Management Department (a department which functionally reports to the Risk Committee) is empowered to independently identify and assess risks that may arise from the Bank's investing and operating activities; as well as recommend directly to the Executive Management Committee any prevention and mitigation measures as it deems fit. In addition, the Internal Audit Department, which is independent of both operations and the Bank's investments units, also assists in the risk management process. In particular, the Internal Audit Department is charged with a periodic review of the effectiveness of the Bank's policies and internal controls, including those relating to the risk management process.

3.4 The Internal Audit Department adopts a risk-based audit approach whereby the nature, timing and extent of the audits are determined with regard to the risk relevant to each business or support unit of the Bank. A risk assessment is carried out annually to determine the major risks faced by each business or support unit and accordingly, an annual audit plan is prepared by the Internal Audit Department and approved by the Board's Audit Committee. The annual plan envisages the coverage, amongst others, of the Risk Management and Compliance Departments.

Detailed operational risk assessments and tests of effectiveness of internal controls designed to mitigate risks (covering each of the risk components as mentioned above) are carried out in accordance with the annual audit plan. A follow up audit to ascertain the status of implementation of observations previously made by internal or external audit is also part of the annual audit plan.

The key findings arising from the work performed by Internal Audit is reported to the Board Audit Committee and senior management of the Bank.

Credit and Counterparty Credit Risk Management (PD 1.3.22 + 1.3.26)

3.5 Credit risk is defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms.

3.6 The Bank is not involved in the granting of credit facilities in the normal course of its business activities. Further, the Bank is not engaged in retail business and therefore does not use credit "scoring" models.

3.7 The credit risk exposures faced by the Bank are principally in respect of its own short term placements with other financial institutions and in respect of investment related funding made to projects. The investment related funding exposures arise in the ordinary course of its investment banking activities and are generally transacted without contractual due dates, collateral or other credit risk mitigants. All such exposures are however reviewed periodically for recoverability and specific provisions made where necessary having regard to the nature of the exposure and the assessment of collection. Additionally, a collective impairment provision is also recorded to reflect general market risks and negative market conditions. As at 30 June 2014, the total collective impairment provision stood at US$ 2.08 million.

3.8 The Bank uses the Standardized Approach under the Basel II framework for measuring its credit risk. As it does not use an internal credit scoring system, the Bank depends, where available, on ratings from External Credit Assessment Institutions recognized by the CBB for its bank counterparty exposures. In the absence of such an external rating – e.g. in the case of an investee company, a detailed credit risk assessment of the obligor is performed by the Investment team and independently reviewed by the Risk Management Department. The Bank does not have any credit exposure to "highly leveraged institutions".

3.9 All lines of counterparty credit limits are subject to annual reaffirmation by the Board of Directors. The limits are also reviewed frequently to ensure consistency with the Bank's investment strategies and to take into account the latest market developments. Given the nature of the Bank's business, the Bank uses nominal balance sheet amounts including accrued interest and other receivables as its measure of exposure. Overall, the Bank's management considers that its policies and procedures constitute a reasonable approach to managing the credit risk in the activities it is engaged in.

Securitisation

3.10 The Bank does not generally undertake or participate in securitization activities in relation to credit synthesis, acting as a sponsor, liquidity facility provider, credit enhancement facility provider, swap provider nor have any of its assets securitized and therefore has no recourse obligations under such transactions as defined by the Financial Stability Task Force.

However, the Bank has structured and arranged the "Liquidity Program" which raised a total of US$ 55 million in 2010 through the issuance of Shari'ah compliant one year liquidity certificates with early redemption options of 30 days, 90 days and 180 days with attractive yields, which has been fully subscribed by investors. These certificates are backed by an 84.61% share in the rental yield of the VCBank Building, a prime commercial property in the Diplomatic Area of the Kingdom of Bahrain. As at 30 June 2014, the Bank acts as a liquidity provider under the Program to take up any early redemption up to US$ 10 million which are not immediately taken up by replacement investors under the Liquidity Program.

Off-Balance Sheet Items

3.11 The Bank's off-balance sheet items comprise:

a. Contingent exposure of US$ 34.73 million associated with the issuance of guarantees for investment related funding made by financial institutions to the Bank's investment projects. Since these may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements

b. Commitments to finance and invest of US$ 10.96 million

c. Restricted investment accounts of US$ 3.88 million (refer to statement of changes in off - balance equity of investment account holders to the financial statements).

3 RISK MANAGEMENT (continued)

Concentration Risk

3.12 Concentration of risks arises when a number of obligors, counterparties or investees are engaged in similar business 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. Accordingly, such concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or region.

3.13 The Bank has established limits based on geographic regions and industry sectors. The Bank's Large Exposure Policy details the Bank's exposure limits and is in compliance with the concentration limits laid down by the CBB.

3.14 The quantitative details of the Bank's credit risk exposures are depicted in the following tables, which are representative of the position during the period and, accordingly, of the average exposures:

a. Table 5: Distribution of the Bank's exposures by geographic sector as at 30 June 2014

Distribution of Bank's exposures by industry sector — USD '000

Geographic sector	GCC countries	Other MENA countries	Europe	Cayman / Americas	Global	Total
Assets						
Balances with banks	2,797	-	-	-	-	2,797
Placement with financial institutions	9,414	-	-	-	-	9,414
Investments	79,857	52,234	3,322	-	10,328	145,741
Investment in associates and joint venture accounted under the equity method	26,514	1,333	-	-	-	27,847
Receivables	16,386	10,398	2,736	1	1,814	31,335
Funding to project companies	4,665	8,072	-	1,346	-	14,083
Other assets	1,536	1,793	-	-	5,572	8,901
Property and equipment	9,284	-	-	-	-	9,284
Total Assets	**150,453**	**73,830**	**6,058**	**1,347**	**17,714**	**249,402**
Off statement of financial position items						
Equity of investment account holders	3,879	-	-	-	-	3,879
Commitments and contingencies	33,244	12,098	-	340	-	45,682
	187,576	**85,928**	**6,058**	**1,687**	**17,714**	**298,963**

Note: Allocation of the Bank's exposures is based on the asset's country of risk.

3.14 The quantitative details of the Bank's credit risk exposures are depicted in the following tables, which are representative of the position during the period and, accordingly, of the average exposures: (continued)

b. Table 6: Distribution of the Bank's exposures by Industry Sector as at 30 June 2014

Distribution of Bank's exposures by industry sector — USD '000

Industry sector	Trading & manufact-uring	Banks & financial inst.	Real estate related	Oil and Gas	Health care	Techn-ology	Shipping	Others	Total
Assets									
Balances with banks	-	2,797	-	-	-	-	-	-	2,797
Placements with financial institutions	-	9,414	-	-	-	-	-	-	9,414
Investments	28,080	23,224	17,878	11,483	12,961	1,950	10,329	39,836	145,741
Investment in associates and joint ventures	-	-	24,148	-	809	-	-	2,890	27,847
Receivables	955	80	14,178	1,838	2,630	433	1,815	9,406	31,335
Funding to project companies	8,072	21	780	-	3,864	1,346	-	-	14,083
Other assets	386	-	25	72	3	26	5,572	2,817	8,901
Property and equipment	-	-	8,420	-	-	-	-	864	9,284
Total Assets	**37,493**	**35,536**	**65,429**	**13,393**	**20,267**	**3,755**	**17,716**	**55,813**	**249,402**
Off statement of financial position items									
Equity of investment account holders	-	3,098	-	-	-	-	-	781	3,879
Commitments and contingencies	12,098	10,000	23,244	-	-	340	-	-	45,682
	49,591	**48,634**	**88,673**	**13,393**	**20,267**	**4,095**	**17,716**	**56,594**	**298,963**

3 RISK MANAGEMENT (continued)

3.14 The quantitative details of the Bank's credit risk exposures are depicted in the following tables, which are representative of the position during the period and, accordingly, of the average exposures: (continued)

c. Table 7: Exposures by maturity as at 30 June 2014

Distribution of Bank's exposures by maturity USD '000

Maturity-wise exposures	No fixed maturity	Up to 3 months	3 to 6 months	6 months to 1 year	Total up to 1 year	1 to 3 years	Over 3 years	Total
Assets								
Balances with banks	-	2,797	-	-	2,797	-	-	2,797
Placements with financial institutions	-	9,136	-	278	9,414	-	-	9,414
Investments	144,561	-	-	1,180	1,180	-	-	145,741
Investment in associates and joint ventures	27,847	-	-	-	-	-	-	27,847
Receivables	-	2,894	15,206	-	18,100	11,699	1,536	31,335
Funding to project companies	-	-	-	-	-	11,957	2,126	14,083
Other assets	557	9	1,843	5,514	7,366	968	10	8,901
Property and equipment	9,284	-	-	-	-	-	-	9,284
Total assets	**182,249**	**14,836**	**17,049**	**6,972**	**38,857**	**24,624**	**3,672**	**249,402**
Off statement of financial position items								
Equity of investment account holders	2	-	-	-	-	3,877	-	3,879
Commitments and contingencies	22,098	23,244	-	-	23,244	-	340	45,682
	204,349	**38,080**	**17,049**	**6,972**	**62,101**	**28,501**	**4,012**	**298,963**

Note: There are no dues which are expected to be of longer duration than 5 years.

3.14 The quantitative details of the Bank's credit risk exposures are depicted in the following tables, which are representative of the position during the period and, accordingly, of the average exposures: (continued)

d. Related party transactions:

In the ordinary course of its business, the Bank enters into transactions with related parties which are at an arm's length and approved by management. The following table gives an analysis of related party transactions and balances:

Table 8: RELATED PARTY TRANSACTIONS as at 30 June 2014

Related Party Transactions				USD '000
	Associates and joint venture	Board members/ key management personnel/ Shari'a board members/ external auditors	Significant shareholders / entities in which directors are interested	Total
Assets				
Balances with banks	-	-	1,098	1,098
Placements with financial institutions	-	-	981	981
Investments	-	-	47,278	47,278
Investments in associates and joint venture	27,847	-	-	27,847
Receivables	2,053	9,906	4,426	16,385
Funding to project companies	5,211	-	2,808	8,019
Other assets	58	-	225	283
Liabilities				
Employee accruals	-	1,586	-	1,586
Other liabilities		428		428
Income				
Income from investment banking services	2,218	-	-	2,218
Share of loss of associates and joint venture accounted for using the equity method	(453)	-	-	(453)
Other income	-	-	1,981	1,981
Realised gain on sale of investment property	-	3,253	-	3,253
Expenses (excluding compensation for key management personnel)				
Impairment allowances against investments	-	-	-	-
Impairment allowances against receivables	260	-	-	260

3 RISK MANAGEMENT (continued)

Market Risk Management

3.15 Market risk is defined as the risk of losses in the Bank's On and Off Balance sheet positions arising from movements in market prices. These risks include:

a. Those pertaining to profit - rate related instruments and equities in the trading book.

b. Foreign exchange and commodities risk throughout the Bank.

3.16 The Bank's market risk exposures arise predominantly from its trading portfolio of listed equities and a small portfolio of foreign currency denominated assets that are not pegged to the United States Dollar. The Bank's market risk is currently not a major source of risk since the Bank's business strategy does not envisage taking on significant exposure to listed equities or foreign denominated assets. The Bank measures its market risk exposure using the Standardised Approach under the Basel II framework.

Operational Risk Management

3.17 Operational risk is defined as the risk of direct and indirect losses resulting from inadequate or failed processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risks. Operational risk differs from other banking risks in that it is not directly taken in return for an expected reward but exists in the natural course of Banking activity, which in turn affects the risk management process.

3.18 The Bank is exposed to operational risk due to the complex nature of its alternative investment products and the intricacy of the documentary, legal and other regulatory requirements that surround such investment transactions. Operational risk emanates from all areas of the Bank.

3.19 The Bank uses the Basic Indicator Approach under the Basel II Framework for measuring its operational risk. Currently, the Bank conducts its business from a single location. Accordingly, the number of client relationships and volume of transactions at the Bank are lower than at institutions having multi-location or retail operations.

3.20 Notwithstanding this, the Bank's operations are conducted according to well-defined processes and procedures. These processes and procedures include a broad system of internal controls, including segregation of duties and other internal checks, which are designed to prevent either inadvertent staff errors or malfeasance prior to the release of a transaction. The Bank also engages in subsequent monitoring of accounting records, daily reconciliation of cash, bank and securities accounts and other checks to enable it to detect, on a timely basis, any erroneous or improper transactions which may have occurred.

3.21 The Bank is currently enhancing its operational risk management framework that will

a. help track operational loss events and potential exposures as well as report these on a regular basis.

b. improve the Bank's loss mitigation process and hence, the overall operational risk management framework.

In addition, the Bank is reviewing and updating its Business Continuity Plan to mitigate the risk of loss from business disruption due to unexpected events.

Legal Risks

3.22 Legal risk includes the risk of non-compliance with applicable laws or regulations, the illegality or unenforceability of counterparty obligations under contracts and additional unintended exposure or liability resulting from the failure to structure transactions or contracts properly

3.23 The Bank's legal risks are mitigated through legal counsel review of transactions and documentation, as appropriate. Where possible, the Bank uses standard formats for transaction documentation. To prevent potential association with any money laundering activities, the Bank has designed and implemented a comprehensive set of policies and procedures. Adherence to the Bank's policies and procedures is reinforced through staff training as well as internal and external reviews. As on the reporting date, the Bank has no significant material legal contingencies including pending legal actions.

Shari'ah compliance

3.24 The Shari'ah Supervisory Board (SSB) is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Shari'ah. The Bank also has a dedicated internal Shari'ah reviewer who performs an ongoing review of the compliance with the fatwas and rulings of the SSB on products and processes and also reviews compliance with the requirements of the Shari'ah standards prescribed by AAOIFI. The SSB reviews and approves all products and services before launching and offering to the customers and also conducts periodic reviews of the transactions of the Bank. An annual audit report is issued by the SSB confirming the Bank's compliance with Shari'ah rules and principles.

Equity Risk in the Banking Book (Investment Risk)

3.25 The Bank invests predominantly in three major segments of alternative assets, namely venture capital, private equity and real estate with the main objective to generate consistent superior returns with reasonable risks from high quality, rigorously investigated, efficiently structured and well managed investments. The intent of such investments is a later sale at a profit to strategic investors either through a private placement offering or trade sale.

3.26 The Bank uses the Standardised Approach under the Basel II Framework for measuring its investment risks, which is considered a part of its Banking Book. The Bank manages its investment risks at the specific investment level through an in-depth pre-entry due diligence process based on an established set of guidelines, criteria and parameters, as well as active ongoing consulting-based monitoring by investment teams. The Bank also seeks to diversify its investments, not only geographically and sectorally, but across various revenue stages of investments as well.

3.27 Notwithstanding this, the Risk Management Department independently reviews and provides inputs on areas of risk in potential investments at an early stage of the due diligence process. Working in close cooperation with the respective investment teams, these independent risk reviews support the investment decision making process through both a qualitative assessment and quantitative analysis.

Unrealized Fair Value Gains (losses)

3.28 The Bank's investments which are designated at fair value through profit or loss are re-valued at every half calendar year, and the gains / (losses) recognized in the statement of income are in accordance with the relevant International Financial Reporting Standards. The valuations are performed by the Bank's investment divisions using appropriate internal valuation models with relevant market inputs and assumptions. These valuations are then independently reviewed by the Risk Management Department and the external auditors, and presented to the Board's Finance and Investment Committee for approval.

Table 9: Unrealized Fair Value (Loss) / Gain

USD '000

Particulars	12 months ended June 2014	18 months ended June 2013	12 months ended Dec 2012	12 months ended Dec 2011	12 months ended Dec 2010	12 months ended Dec 2009	12 months ended Dec 2008
Private Equity investments - fair value (losses) / gains	(2,250)	(7,300)	(2,000)	(1,711)	-	3,830	3,300
Real Estate investments - fair value (losses) / gain	-	-	-	(13,572)	(15,100)	(750)	6,500
Listed equity investments - fair value (losses) / gains	17	(15)	(20)	(131)	(58)	360	3,774
Total unrealized fair value (loss) / gain	**(2,233)**	**(7,315)**	**(2,020)**	**(15,414)**	**(15,158)**	**3,440**	**13,574**

3 RISK MANAGEMENT (continued)

Liquidity Risk Management

3.29 Liquidity risk is defined as the risk that the Bank may have insufficient funds to meet its obligations as and when they fall due i.e. risk of being unable to satisfy claims without impairment of its financial capital due to mismatches in the timing of cash flows.

3.30 The Bank does not currently have any borrowings other than short term bank borrowings of $ 10 m and a medium term loan of $ 10 m of 3 year duration. The Bank has also extended certain guarantees and commitments in support of its investment projects as disclosed in the notes to the consolidated financial statements.

3.31 Although this gives rise to a level of liquidity funding risk, management carefully monitors liquidity through regular forecasts prepared by the Bank's Treasury Department in consultation with the business and finance functions of the Bank, including considerations of stress scenarios. The Bank also has a portfolio of quoted equity securities which are available to meet any unexpected shortfalls in funding requirements. Accordingly, management considers that the Bank is not exposed to any significant funding liquidity risk

3.32 The Bank funds its assets primarily through internal accruals and shareholders' equity. The Bank maintained a healthy liquidity position during the period. Its liquidity ratio (cash and cash equivalents plus marketable securities to total liabilities) stood at 50% as at 30 June 2014

Table 10: Liquidity Ratio as at 30 June 2014

	USD '000
Cash at bank	2,797
Placements at bank	9,414
Marketable trading securities	897
Marketable available-for-sale securities	2,529
Short term liquidity certificates	1,180
Total liquid assets	**16,817**
Total liabilities	**33,384**
Of which, due in up to 1 year	10,013
Non current, due after 1 year or more	23,371
Liquid assets / total liabilities	50%
Liquid assets / current liabilities (due within 1 year)	**168%**

Profit Margin Rate Risk Management in the Banking Book:

3.33 As a financial intermediary, the Bank may encounter profit margin risks that arise from timing differences in the maturity and repricing of the Bank's assets and liabilities. While such repricing mismatches are fundamental to the business of banking, these can expose a bank's income and underlying economic value to unanticipated fluctuations as profit margins vary. The factors that affect profit margin rates are principally market and economic factors including inflation and growth rates. Profit margin rate risk however, is not a major source of risk for the Bank due to the absence of significant rate sensitive assets and liabilites, as indicated below. Nevertheless, the Bank monitors its exposure to rate sensitive assets and liabilities proactively and in this regard has implemented a Liquidity Management Policy during the year which covers the following:

a) The practical steps and procedures for day to day management of liquidity.

b) Preparing periodic liquidity projections and forecasts and the review thereof.

c) Liquidity stress testing.

d) The reporting of liquidity status and projections, including stressed projections.

e) The liquidity contingency plan for identifying and dealing with unforeseen disruptive liquidity events professionally and effectively.

3.34 Table 11: Profit Margin Sensitivity Analysis in the Bank's Banking Book

USD '000

Position at 30 June 2014 Repricing period	Rate sensitive assets	Rate sensitive liabilities	Gap	Cumulative Gap	Impact of 200 bp change
1 day	-	-	-	-	-
> 1 day to 3 months	9,136	10,013	(877)	(877)	(4)
> 3 months to 6 months	-	-	-	(877)	-
> 6 months to 12 months	1,180	-	1,180	302	24
> 1 year to 5 years	2,382	10,174	(7,793)	(7,490)	(779)
> 5 years	-	-	-	(7,490)	-
Total	**12,697**	**20,188**			
As % of total balance sheet	**5%**	**8%**			

3.35 Applying Basel II's requirement of quantifying the impact on the value of net profit margin income for a benchmark change of 200 basis points in profit rates, the following are noted:

a. The Bank's net profit margin income for the repricing period of 1 day to 3 months would potentially decrease by US$ 4 thousand if the profit margin rate increases by 200 basis points

b. The Bank's net profit margin income for the repricing periods of 6 months to 12 months would potentially increase by US$ 24 thousand if the profit margin rate increases by 200 basis points.

c. The Bank's net profit margin income for the repricing periods of 1 year to 12 years would potentially decrease by US$ 779 thousand if the profit margin rate increases by 200 basis points.

Equity of Investment Account Holders and Displaced Commercial Risk (DCR)

3.36 The Bank's exposure to Displaced Commercial Risk is limited to its Equity of Investment Account Holders which comprises the following:

a. The GCC Pre IPO Fund, which was set up in 2006 to invest in the shares of unlisted GCC companies in the pre-IPO stage. The total size of the fund is relatively small with funds under investment of approximately US$ 3.7 million. The Bank manages the fund as a Mudarib, in exchange for a fee of 20% of returns over a 10% simple return. The investments in the GCC Pre IPO Fund are exposed to the general equity market risks prevalent in the GCC countries and in the real estate and petrochemical sectors.

b. The Bank's Investment Projects Mudarabah was set up in 2009 to provide liquidity financing to a selected investment project which comprised an investment of US$ 12 million on which it earned a return of 7% less the Bank's share of profit as Mudarib of 7% thereof distributable to investors on maturity. During 2012, the Bank settled in full the principal and profit payable relating to the Investment Projects Mudarabah. The investment in the Investment Projects Mudarabah was exposed to the risks prevalent in the real estate sector in Bahrain.

3 RISK MANAGEMENT (continued)

c. Historical returns on Equity of Investment Account Holders is shown below:

Table 12: Five Years Historical Return Data on Equity of Investment Account Holders

USD '000

	12 months ended Jun 2014	18 months ended Jun 2013	12 months ended Dec 2012	12 months ended Dec 2011	12 months ended Dec 2010	12 months ended Dec 2009
GCC Pre IPO Fund						
Net profit/(loss)	-	34	-	71	(1,406)	129
Total assets	3,879	3,740	3,678	3,681	3,878	4,471
Total equity	3,879	3,740	3,678	3,681	3,878	4,471
Return on assets (ROA)	0%	1%	0%	2%	- 36%	3%
Return on equity (ROE)	0%	1%	0%	2%	- 36%	3%
VCBank Investment Projects Mudarabah						
Net Profit	N/A	N/A	N/A	886	887	331
Total assets	N/A	N/A	N/A	14,105	13,219	12,331
Total equity	N/A	N/A	N/A	13,165	12,341	12,308
Return on assets (ROA)	N/A	N/A	N/A	6%	7%	3%
Return on equity (ROE)	N/A	N/A	N/A	7%	7%	3%

3.37 The Bank is aware of the importance of its fiduciary responsibilities in the management of the Equity of Investment account holders. Transactions with Investment Account Holders are entered into only on the basis of signed subscription and underlying investment agreements, and internal procedures are in place for the proper management and handling of these responsibilities. (Refer to statement of changes in off-balance equity of investment account holders to the financial statements).The impairment provisions recorded is summarized in the tables below:

4 IMPAIRMENT PROVISIONS:

4.1 The Bank follows a prudent policy of regularly reviewing all assets for impairment. Impairment is recognized and charged to the statement of income when circumstances indicate that the recoverability of the asset is in doubt or the investment is not expected to perform as expected.

General allowance represents collective impairment against exposures which, although not specifically identified, are considered to have a greater risk of loss than when originally incepted.

Impaired Islamic financing facilities includes those where full repayment (collectability) of the principal or/ and the profit is in doubt, highly questionable or considered uncollectible due to inadequate protection by the impaired paying capacity of the customer (or counterparty) or by impairment of the collateral pledged if any.

4.2 The impairment provisions recorded is summarized in the tables below :

Table 13: Impairment provisions - by asset class

USD '000

		Impairment booked during the year ended 30 June 2014		Cumulative impairment provision as of 30 June 2014		
Particulars	Gross exposure	Specific	Collective	Specific	Collective	Net carrying value
Investments	46,582	1,000	-	28,740	-	17,842
Investments in associates and joint venture	5,173	-	-	5,173	-	-
Receivables	22,200	550	-	10,251	-	11,949
Funding to project companies	34,802	260	540	18,712	2,008	14,082
Other assets	7,813	-	-	2,335	-	5,478
Total	**116,570**	**1,810**	**540**	**65,211**	**2,008**	**49,351**

Table 14: Impairment provisions - by industrial sector

USD '000

		Impairment booked during the year ended 30 June 2014		Cumulative impairment provision as of 30 June 2014		
Particulars	Gross exposure	Specific	Collective	Specific	Collective	Net carrying value
Real estate	52,581	1,000	540	37,035	2,008	13,538
Health care	5,416	-	-	1,300		4,116
Technology	15,458	260	-	14,112		1,346
Oil and gas	18	-	-	18		-
Transportation	11,773	-	-	1,125		10,648
Others	31,324	550	-	11,621		19,703
Total	**116,570**	**1,810**	**540**	**65,211**	**2,008**	**49,351**

5 BOARD AND EXECUTIVE MANAGEMENT REMUNERATION

5.1 The Nomination and Remuneration Committee of the Board assists the Board in determining the remuneration and compensation of the Board and Executive Management, including incentives and employee share ownership plan entitlements.

5.2 Board compensation comprises board remuneration on a formula approach reflecting the Bank's profitability and participation in Board meetings, and attendance fees per meeting attended.

5.3 Executive Management compensation comprises, in addition to salaries that are in line with industry norms, incentives based on profitability and performance, plus participation in the Bank's employee share ownership plan.

6 CORPORATE GOVERNANCE AND TRANSPARENCY

Disclosures on corporate governance and transparency, including qualifications and experience of directors have been disclosed in the Annual Report for year ended 30 June 2014. The following tables give details of distribution of shares by nationality, ownership of shares by directors etc.

6.1 Table 15: Distribution of shareholders by nationality:

Country	Ownership %
United Arab Emirates	3.3%
Kuwait	21.6%
Kingdom of Saudi Arabia	51.8%
Qatar	4.3%
Oman	2.3%
Kingdom of Bahrain	16.7%
Total	**100.0%**

6.2 Table 16: Distribution of shareholders by size of shareholding:

Ownership %	Number of shareholders
Less than 1%	149
1% - 2%	16
2% - 3%	5
3% - 4%	2
4% - 5%	0
More than 5%	3
Total	**175**

Three of the Bank's shareholders hold more than 5% ownership in the Bank. These are corporate shareholders noted below:

- The Commercial Real Estate Co. (K.S.C.C.) – 6.79% ownership.
- VCBank ESOP SPC – 6.13% ownership, but unvested.
- Securities Group (K.S.C.C.) – 5.65% ownership.

6.3 Ownership of shares by government:
The Bahrain Development Bank B.S.C. (c), a public sector organization owned by the Government of Bahrain has a 1.07% interest in the share capital of the Bank.

6.4 Ownership of shares by Board members:
Seven members of the Board have shareholdings ranging from 0.14% to 2.36% of total capital. In addition a number of Board members represent corporate shareholders with shares ranging from 0.45% to 5.65%.

The Board is responsible for the stewardship of the Bank's business and affairs on behalf of the shareholders, with a view to enhancing long-term shareholder value whilst taking into account the interests of other stakeholders, and maintaining high standards of transparency and accountability. The Board comprises 12 members, all of whom are independent non-executive Directors except for the CEO.