TEN YEARS OF **GROWTH & DEVELOPMENT**

VENTURE
CAPITAL
BANK

Annual Report 2014 - 2015

A MILESTONE YEAR

IN 2015, VCBANK CELEBRATED ITS 10TH ANNIVERSARY, WHICH REPRESENTS A SIGNIFICANT CORPORATE MILESTONE. DURING THE PAST DECADE, THE BANK HAS ARRANGED, OFFERED AND PLACED OVER 40 ATTRACTIVE, AND OFTEN UNIQUE INVESTMENT OPPORTUNITIES ACROSS A NUMBER OF PROMISING ASSET CLASSES AND SECTORS, WITH A TOTAL VALUE EXCEEDING USD 1.7 BILLION.

VENTURE CAPITAL BANK BSC(C)

Venture Capital Bank Building
Building 247
Road 1704, Block 317
Diplomatic Area

P.O. Box 11755, Manama
Kingdom of Bahrain
Tel: +973 1751 8888
Fax: +973 1751 8880

www.vc-bank.com

Licensed as an Islamic Wholesale Bank by the CBB

بسم الله الرحمن الرحيم

CONTENTS

CORPORATE OVERVIEW

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. Commencing operations 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 USD190 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, UK and USA. 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 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

US Dollar in Millions

Despite an extremely challenging regional economic and market backdrop, VCBank posted a strong financial performance for FY 2015.

Net Profit
14.1M
30 June 2015
14.6m
30 June 2014

Total Income
30.9M
30 June 2015
28.6m
30 June 2014

Total Assets
250.8M
30 June 2015
249.4m
30 June 2014

Shareholders' Equity
219.5M
30 June 2015
216.0m
30 June 2014

Total Assets Under Management
1,274.2M
30 June 2015
1,242.6m
30 June 2014

Capital Adequacy Ratio (%)
36.9%
30 June 2015
43.8%
30 June 2014

3 Years Summary	30 June 2015 USD '000	30 June 2014 USD '000	1 Jan 2012 - 30 June 2013 USD '000
NET PROFIT	14,058	14,589	21,145
Impairment allowances on receivables and AFS investments	(3,703)	(2,350)	(4,070)
Fair value losses booked on FVTPL investments	(3,000)	(2,250)	(7,300)
TOTAL ASSETS	250,820	249,402	221,561
Total liabilities	31,353	33,384	21,083
Total equity	219,467	216,018	200,478
TOTAL ASSETS UNDER MANAGEMENT	1,274,227	1,242,591	1,146,491
Capital adequacy ratio	36.9%	43.8%	47.6%
Return on average assets	5.6%	6.2%	10.1%
Return on equity	6.5%	7.0%	11.1%
Total Asset : Total Liability ratio	800%	747%	1051%

OPERATIONAL HIGHLIGHTS

- Delta Company Limited, Saudi Arabia

  Acquired 45% stake in specialist contractor for electrical power, transmission and distribution

- 24 Buckingham Gate, London SW1

  Structured and advised on acquisition of prime freehold residential site under development

- VCBank Liquidity Programme 2

  Shares backed by prime asset of Jebel Ali Labour Accommodation

- Portfolio Management

  Dedicated Post-Acquisition Team established to monitor and manage the performance of Bank's portfolio companies in line with their strategic business plans and exit strategies

- Investor Relations

  New client relationship management (CRM) system fully implemented to provide enhanced service

- Governance

  VCBank adopted new CBB regulations:
  - Sound Remuneration Practices
  - Foreign Account Tax Compliance Act (FATCA)

- Human Capital
  - Continued to recruit professionals for key areas
  - Expanded Executive Management Team
  - Three members of the Bank's management team attended the CBB Waqf Fund Leadership Grooming Programme

- Corporate Social Responsibility
  - Sponsored three major global Islamic banking and finance industry conferences
  - VCBank head office roof garden supports the Green Capital Project

- Industry Recognition
  - VCBank was ranked in the top five Islamic financial institutions in the GCC, according to the Financial Disclosure Index of the World Islamic Banking Conference Leaderboard
  - The Bank was named "Best Islamic Investment Bank 2015" by the Global Islamic Finance Awards

CHAIRMAN'S STATEMENT

Shareholders' Equity

USD219.5M

30 June 2015

"DURING THE PAST DECADE, VCBANK HAS DEVELOPED A SUCCESSFUL TRACK RECORD FOR SUPERIOR DEAL FLOW AND STRONG PLACEMENT CAPABILITY, WHICH ARE CRITICAL SUCCESS FACTORS FOR AN INVESTMENT BANK."

Dr. Ghassan Ahmed AlSulaiman, Chairman of the Board

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 2015. I am pleased to report that with the grace of God, we maintained the successful momentum of the past three and a half years in terms of sustainable profitability and increased investment activity. As a result, we ended our first ten years of operations on a highly positive note.

VCBank posted a strong financial performance for FY 2015. Total income including recovery of previously impaired assets increased to USD 30.9 million from USD 28.6 million the previous year, while total expenses reduced to USD 12.6 million from USD 13.2 million for FY 2014. Significantly, income from investment banking activities remained very healthy at USD 13.7 million. As a result, the Bank posted a net profit in FY 2015 of USD 14.1 million compared with USD 14.6 million for the previous year, equating to a return on net paid-up capital of 7.8 per cent. It should be noted that these results are after recognising fair value losses of USD 3 million and impairment provisions of USD 3.7 million, which were booked as a prudent measure in view of prevailing market conditions.

The Bank continued to maintain a strong capital base, with total balance sheet assets of USD 250.8 million as at 30 June 2015 compared with USD 249.4 million at the end of the previous year, while the balance sheet remained unleveraged. At the end of FY 2015, shareholders' equity stood at USD 219.5 million versus USD 216 million at the end of FY 2014. VCBank's capital adequacy ratio was a very robust 36.9 per cent, considerably higher than the 12.5 per cent minimum requirement of the Central Bank of Bahrain. Total assets under management grew by 2.5 per cent to USD 1.27 billion as at 30 June 2015 compared with USD 1.24 billion at the end of the previous year.

In terms of investment activities, I am pleased to report that the Bank successfully concluded three new transactions during the year. This was in addition to a partial exit of the Jebel Ali Labour Accommodation project in the UAE through an asset backed Liquidity Programme of USD 59.5 million, and the revival of the Difaaf Development project at Reef Island in Bahrain through a capital increase of USD 18.75 million. These have further strengthened and diversified our investment portfolio, and reinforced our market reputation for offering clients innovative and attractive investment opportunities. At the same time, we made significant progress with several of our key existing investments. The Bank has developed a strong pipeline of potential deals and exits, which we expect to conclude during fiscal year 2016. It also gives me great pleasure to mention that the Bank was named "Best Islamic Investment Bank 2015" by the Global Islamic Finance Awards, and was ranked in the top five Islamic financial institutions in the GCC, according to the Financial Disclosure Index of the World Islamic Banking Conference Leaderboard.

During FY 2015, we celebrated our 10th anniversary, which marks a significant corporate milestone. Commencing operations in October 2005, VCBank is the first Islamic investment bank in the GCC and MENA to specialise in small-to-medium enterprises (SMEs) and venture capital opportunities, through which to support the economic and social development of the region.

During the past decade, VCBank has developed a successful track record for superior deal flow and strong placement capability, which are critical success factors for an investment bank. For each of the past ten years, the Bank has arranged, offered and placed attractive, and often unique, investment opportunities across a number of promising asset classes and sectors. These cover venture capital and business development, private equity, and selective real estate in the GCC, MENA, Turkey, UK and USA. The Bank has developed particular expertise in the healthcare, agribusiness, power transmission, oil and gas, and education.

VCBank now ranks among the most active investment banks in the region, with investment placements since inception exceeding USD 1.7 billion. Given the highly volatile global and economic and market environment during this period, together with heightened geo-political tensions in some parts of the region, this is a significant achievement for a MENA-focused Islamic investment bank. We are fully aware that this could not have been achieved without the continuous support and loyalty of our shareholders and clients, and the dedication and professionalism of our investment and wealth management teams.

During the past decade, the global financial crisis of 2008 and the ensuing economic downturn adversely affected the investment banking sector, and had a negative impact on VCBank's profitability in 2010 and 2011. We responded promptly to this challenge by undertaking a number of remedial measures. These included reducing costs, utilising assets more effectively, restructuring the organisation to improve efficiency and maximise synergies, and refocusing investment activities. We also developed a new strategy and business plan, aimed at generating and sustaining profitability, maintaining adequate liquidity, and building a solid foundation for providing acceptable returns to our shareholders.

These measures proved to be successful, and resulted in a return to profitability in 2013 and subsequent years. VCBank is now a leaner, more efficient and focused institution, supported by an underlying commitment to ethical banking activities; sound corporate governance and risk management; and an enlightened approach to corporate social responsibility.

Based on our financial and operational performance during fiscal year 2015, and our achievements over the past three 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 – with the grace of God – well placed to take advantage of future economic and market improvements, and capture new business opportunities. However, based on past experience, and given the reduced forecast for GDP growth in the GCC and MENA region, we realise that the immediate future will continue to prove both volatile and challenging for the regional investment banking sector.

In conclusion, 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 AlSulaiman
Chairman of the Board

BOARD OF DIRECTORS

Dr. Ghassan Ahmed AlSulaiman
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

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

SHARI'AH SUPERVISORY BOARD

Shaikh Nidham Mohammed Saleh Yaqooby
Chairman

Dr. Abdul Sattar Abdul Kareem Abu Ghuddah
Member

Dr. Essa Zaki Essa
Member

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. 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 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.

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.

CHIEF EXECUTIVE OFFICER'S REPORT

Net Profit

USD14.1M

30 June 2015

"As we celebrate our tenth anniversary, it is worth noting that since commencing operations in October 2005, VCBank has successfully arranged and closed over 40 transactions with a total value exceeding USD 1.7 billion."

Abdullatif Mohamed Janahi, Board Member & Chief Executive Officer

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 VCBank posted a strong operational performance in fiscal year 2015, highlighted by continued profitability and business growth. This was achieved despite an extremely challenging regional economic and market backdrop, marked by a dramatic decline in oil prices and heightened geo-political tensions in some parts of the MENA region.

Net profit for fiscal year 2015 was USD 14.1 million while total income was USD 30.9 million compared with USD 28.6 million in the previous year. Importantly, income from investment banking activities contributed USD 13.7 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, power transmission and education; and the more economically and politically stable markets in MENA, such as Turkey.

In FY 2015, VCBank enjoyed one of its busiest years for investment banking activity through the offering of a number of new investments with a total capital raising of approximately USD 160 million from clients. In the first deal, the Bank structured and advised on a GBP 30 million transaction for a select group of investors to acquire 24 Buckingham Gate, a prime freehold residential site under redevelopment in London's prestigious SW1 postcode district. Another transaction involved the acquisition of a 45 per cent stake in Delta Company Limited, a leading Saudi-based contractor specialising in electrical power, transmission and distribution. A significant success was the partial exit of the Jebel Ali Labour Accommodation complex through the launch of the Bank's second Liquidity Programme of USD 59.5 million, which is backed by two completed and fully leased buildings of the complex. Furthermore, we successfully executed the plan to revive the Difaaf Development project at Reef Island in Bahrain through a capital increase of USD 18.75 million.

Some key highlights of the Bank's existing investments include receipt of planning permission for the redevelopment of Park Crescent West, an iconic gateway to Regent's Park in London; while in Bahrain, construction of the landmark Royal Maternity Hospital is near to completion, with the current anticipated opening date being the first quarter of 2016. Additionally, in a deal worth USD 23.5 million, VCBank completed the purchase of six million square metres of prime farmland in Turkey, which will be leased to Goknur, the leading Turkish fruit concentrate company.

The Bank made encouraging progress in implementing its investment exit strategy during the year. Following the sale of four out of six apartments, the Mayfair Chambers property development in London's prime W1 residential area was partially exited, with investors receiving 80 per cent of their capital. In the UAE, two of the three buildings of the Jebel Ali Labour Accommodation complex were successfully leased, with these assets then securitised to back the newly-launched VCBank Liquidity Programme 2.

As we celebrate our tenth anniversary, it is worth noting that since commencing operations in October 2005, VCBank has successfully arranged and closed over 40 transactions with a total value exceeding USD 1.7 billion. This is a remarkable performance for a regional Islamic investment bank, and reflects the professionalism and concerted efforts of our investment and wealth management teams, and the enduring support of our loyal investor base.

During the year, the Board of Directors and the Management Team convened to review the Bank's strategic progress. The primary investment focus will continue to be placed on private equity deals, followed by venture capital and business development-themed transactions. 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 also reconfirmed the ongoing emphasis on implementing the Bank's exit strategy, which is overseen by the Investments Exit Committee comprising members of the Board and Management Team. In support of this strategy, a new dedicated Post-Acquisition 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.

During the year, we further enhanced the Bank's institutional capability with ongoing investment in our human capital and information technology infrastructure; and continued to recruit additional professionals for key areas such as Investments, Wealth Management and Internal Audit. We also expanded the Executive Management Committee with the addition of Head of Post-Acquisition - Investments and Head of Internal Audit. Their respective expertise and experience will add depth to the Management team, and support the implementation of VCBank's strategic objectives and business plan.

Our financial results and operational achievements in FY 2015 are testimony to the Bank's high standards of performance and the effectiveness of our refocused investment strategy. God willing, we will continue to build upon our strong performance over the past three and a half years, in order to adapt to new changes and challenges in the marketplace, and capitalise on emerging business opportunities. However, we are fully aware that the foreseeable future will continue to prove both volatile and testing for the regional investment banking sector.

VCBank is well-capitalised and unleveraged, with a strong asset base and an active pipeline of investment deals and potential exits. As such, we remain confident in our ability to achieve improved revenue growth in line with our business targets. Although mindful of the more subdued outlook for the GCC and MENA region due to the continued decline in oil prices, we enter the new fiscal year with renewed determination and optimism.

In conclusion, I express my sincere gratitude for the unwavering support and encouragement that we continue to receive from our Board of Directors. I also gratefully 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, whose commitment and hard work, and positive attitude towards embracing change and rising to new challenges, have contributed to another successful performance by the Bank. We continue to be blessed by having such a dedicated and professional team.

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

Abdullatif Mohamed Janahi
Board Member & Chief Executive Officer

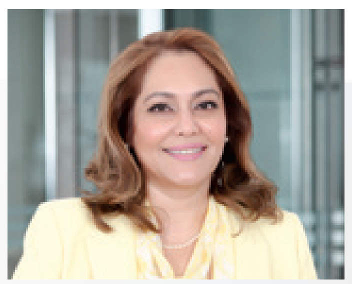
EXECUTIVE MANAGEMENT

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
Senior Executive Director - Investments

Santhosh Jacob Karipat
Executive Director - Head of Financial Control

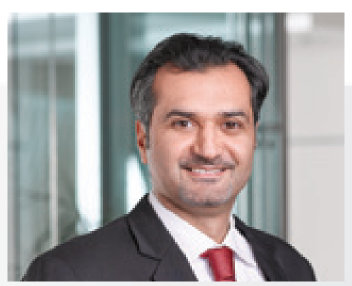


Najwa Abdulla Mohanna
Executive Director - Head of Operations & Support

Mohamed Jassim Al Shaikh
Executive Director - Head of Wealth Management

Sohail Malik
Executive Director - Head of Post-Acquisition, Investments

Menir Ahmed
Director - Head of Risk Management



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

Asya Hasan
Director - Head of Internal Audit

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' profiles are listed in the Corporate Governance Review.

INVESTMENT REVIEW

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 and 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. In 2015, a dedicated Post-Acquisition Team was established to monitor and manage the performance of the Bank's portfolio companies in line with their strategic business plans and exit strategies.

In FY 2015, VCBank enjoyed one of its busiest years for investment banking activity through the offering of a number of new investments with a total capital raising of approximately USD 160 million from clients. Income from investment banking activities contributed USD 13.7 million, reflecting the success of the Bank's strategic focus on key sectors and geographies in which we have built particular expertise.

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 a reduced 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. The Exit Committee, comprising members of the Board and the Management team, is currently reviewing a number of potential exit candidates, which are expected to be concluded during FY 2016.

INVESTMENT REVIEW

FY 2015 INVESTMENT HIGHLIGHTS

NEW INVESTMENTS

DELTA COMPANY LIMITED

VCBank acquired a 45 per cent shareholding in Delta Company Limited, a Saudi-based specialised contracting company. Established in 1976, Delta has grown to become one of the Kingdom's leading contractors in the fields of electrical power, transmission and distribution; and is also active in broadcasting, telecommunications, and operations and maintenance.

24 BUCKINGHAM GATE

VCBank continued its successful foray into London's high-end residential property market by structuring and advising on a GBP 30 million transaction for a select group of investors to acquire a prime freehold residential site under redevelopment. Situated in London's prestigious SW1 postcode district, close to Buckingham Palace and St. James's Park, 24 Buckingham Gate comprises eight apartments and a luxury penthouse.

VCBANK LIQUIDITY PROGRAMME 2

The shares of VCBank's second liquidity programme are backed by the prime asset of the Jebel Ali Labour Accommodation complex, of which the first two buildings have been fully leased to reputable clients.

EXISTING INVESTMENTS

ROYAL MATERNITY HOSPITAL

This pioneering project in Bahrain made excellent progress during FY 2015. Key developments include the appointment of a Chief Executive Officer, finalisation of the hospital's pre-operations and operations plans, and liaison with relevant licensing authorities such as the National Health Regulatory Authority. The current anticipated opening date for the hospital is the first quarter of 2016.

1.

PARK CRESCENT WEST

Notable developments in this iconic property redevelopment, which overlooks Regent's Park in London, include receipt of planning approval from Westminster City Council, and signing of a term sheet for development financing with ABC International Bank, UK. In addition, the main contractor and a new project manager have been appointed, together with mechanical, electrical and plumbing (MEP) and structural engineers.

MAYFAIR CHAMBERS

This property development situated in the Mayfair W1 conservation area, which is one of London's most prestigious residential locations, comprises six luxurious residences of which four have already been sold, with the remaining two expected to be sold by the end of 2015. This investment has been partially exited, with investors having received 80 per cent of their invested capital.

TURKEY FARMLAND

In a transaction valued at USD 23.5 million, VCBank completed the purchase of six million square metres of farmland in prime locations across Turkey, during FY 2015. The farmland will be leased to Goknur Foods Import Export Trading & Distribution Company – the leading Turkish fruit concentrate company – which will handle the entire process of plantation, harvesting, marketing and sales through a management and off-take agreement.

DIFAAF

VCBank decided to proceed with this residential project on Reef Island following an assessment of the improving economic environment, property market and demand for residential apartments in Bahrain. The Bank has arranged for a capital increase of USD 18.75 million in order to proceed with construction, securing project financing in order to complete the project, and signed a pre-construction services agreement with the contractor.

ONE BAHRAIN

Due to the ongoing recovery in Bahrain's real estate sector, VCBank has taken steps to revive this residential and hospitality project, and commence construction. The financial model has been refined and updated in order to invite strategic investors to participate in an equity contribution. The land for this project, located on the prestigious Reef Island development off the north coast of Manama, was acquired through a joint-venture with a Bahraini partner.

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

INVESTMENT PORTFOLIO UPDATE

PRIVATE EQUITY

DELTA COMPANY LIMITED

In FY 2015, VCBank acquired a 45 per cent shareholding in Delta Company Limited, a Saudi-based specialised contracting company. Established in 1976, Delta has grown to become one of the Kingdom's leading contractors in the fields of electrical power, transmission and distribution. The Company is also active in other sectors such as broadcasting, telecommunications, and operations and maintenance. Either independently or through joint ventures, Delta has successfully completed projects worth more than US$1 billion. Contracts with Saudi government agencies, for which Delta is a preferred infrastructure partner, account for about 90 per cent of the Company's total revenues.

BYRNE INVESTMENT LIMITED

Byrne Investment Limited (BIL) is one of the largest and most diversified equipment rental and modular space providers in the GCC, and operates through its well-established brands – Byrne Equipment Rental and Spacemaker. 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.

In FY 2015, BIL expanded its Spacemaker activities to Saudi Arabia with the establishment of Byrne Solutions; received shareholder approval to acquire the remaining 51 per cent of Byrne Qatar; and took the decision to establish a subsidiary in Kuwait. Byrne Equipment Rental introduced new products such as hybrid (battery-based) generators, and entered into a distribution agreement with V-Power for a new range of generators from prominent manufacturers.

TURKEY FARMLAND

In a transaction valued at USD 23.5 million, VCBank completed the purchase of six million square metres of farmland in prime locations across Turkey, during FY 2015. The farmland will be leased to Goknur, the leading Turkish fruit concentrate company. 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.

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1. 24 Buckingham Gate
2. Turkey Farmland
3. Byrne Investment Limited

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INVESTMENT REVIEW

INVESTMENT PORTFOLIO UPDATE
PRIVATE EQUITY (continued)

GOKNUR

Established in 1993, Goknur Foods Import Export Trading & Distribution Company (Goknur) 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.

Goknur reported a record performance in 2014 for production, sales and profitability; and distributed a cash dividend of 6 per cent in FY 2013. The Company is currently exploring the strategic acquisition of a local juice concentrate producer at an attractive valuation. This would create significant synergies through access to additional distribution outlets and farmland; and result in increased market share and an improved competitive edge.

MENA SHIPCO

Despite significant volatility witnessed by the global shipping industry during the year, MENA SHIPCO continued to perform well. The Company owns three modern 57,000 tons deadweight (DWT) Supramax bulk carrier vessels, which are currently deployed on short-term time charters with reputable companies across various global shipping routes.

MENA SME FUND

Established in 2006, this fund made its last capital call in 2010 and was then closed following the acquisition of a stake in QCon. During FY 2015, the Fund continued to monitor and manage its portfolio companies, and explore potential exit options. No further capital allocations were made during the year. No distributions were made to investors in FY 2015. The Fund's portfolio companies are Challenger Limited, JAFCCO, ITWorx and QCon, whose progress is reported separately in this review.

CHALLENGER LIMITED

Libya-based Challenger is a provider of contract oil and gas land drilling and workover services, operating primarily in the MENA region. Due to the worsening situation in Libya, the Company has only one rig currently contracted, which is deployed in Tunisia. Challenger is exploring the possibility of relocating its other rigs to neighbouring countries such as Egypt and Algeria, or moving them further afield to Kuwait where the Company is pre-qualified with Kuwait Oil Company.

In FY 2015, Challenger signed a six-year master teaming arrangement with CK Drilling (a joint venture between Kuwait & China Trading Company and RG Petro Machinery) to pursue onshore well drilling services for oil and gas projects, and related tenders in Kuwait. Other regional opportunities, which include potential long-term water well drilling projects in Egypt, could require up to 20 drilling rigs.

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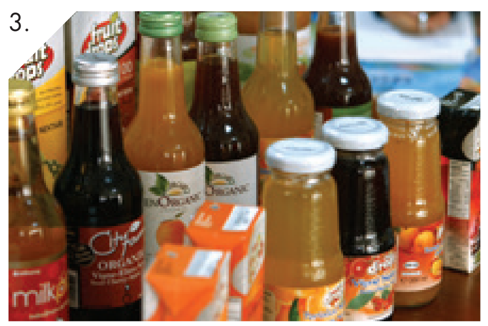

1/ 2 /3. Goknur

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JAFCCO

Jordan Al Abyad Fertilizers & Chemicals Company (JAFCCO) has successfully completed the restructuring plan for its expansion project, with production capacity expected to reach breakeven by the end of 2015. As part of a major restructuring plan, financing facilities have been rescheduled to reduce financing costs and improve cash flow. Modifications and upgrades to the plant have improved overall flexibility and facilitated the production of phosphate potassium, which is in high demand globally. JAFCCO continues to witness strong demand for its products, despite increased competition in the market due to the re-entry of Chinese and European producers of similar products. The company had foreseen this development, and secured new contracts with major exporters in Algeria, Morocco and Pakistan, as well as its traditional markets.

ITWorx

ITWorx is one of the largest software outsourcing firms in Egypt, with offices in Saudi Arabia, UAE, Qatar, Europe and the USA. After a challenging start to 2015, the Company secured a number of new projects during the second half of the year. This includes a USD 10.6 million project in Abu Dhabi, which is its biggest project to date; as well as another project in Qatar. ITWorx also completed a contract in Azerbaijan which was based on the Huawei platform, which should open up new opportunities with telecom operators in Africa and Asia that use this platform. ITWorx Education was named "2014 Worldwide Public Sector Partner of the Year for Education" at the Microsoft Partner Awards, and was singled out for praise by the CEO of Microsoft. ITWorx has appointed an international bank to manage the sale of the Company in line with VCBank's investment exit strategy.

QCON

Qatar Engineering & Construction Company (QCon) is a leading engineering, procurement and construction (EPC) contracting company that 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 earned a high reputation for quality and safety, in the niche segments in which it operates.

In FY 2015, QCon secured two new projects in Qatar in the areas of EPC and industrial water management; and its second contract in Abu Dhabi. In line with its strategy to geographically diversify its revenue streams, the Company is in an advanced stage of discussions to establish a joint venture in Saudi Arabia; and is also seeking a local partner in the UAE. QCon distributed a cash dividend of 3 per cent for 2014.

4. ITWorx Company
5. Mena Shipco

LEMISSOLER MARITIME COMPANY

Due to the continued weakness of the global shipping market, Lemissoler has reduced its fleet from four vessels to one. This vessel has a long-term charter attached, and the company is now substantially deleveraged. During FY 2015, the Company successfully negotiated a significant haircut on its existing loans with an international investment firm that had acquired the loans from previous lenders. This constitutes a major corporate milestone. MENA SHIPCO, its subsidiary, is now engaged with regional and international financial institutions to raise funds for refinancing the loans and closing the existing deal. Subject to closure of the refinancing, the Company intends to eventually consolidate operations with MENA SHIPCO which will result in a fleet of four vessels.

SVCIC

Saudi Venture Capital Investment Company (SVCIC) is a Saudi-based investment company with a primary focus of investing in promising small and medium enterprises in the Kingdom. SVCIC continues to explore venture capital, private equity and real estate opportunities in Saudi Arabia where it is gradually building its deal pipeline; and is also exploring other opportunistic investments regionally and internationally. This is in line with its new strategy and business plan to structure a portfolio that is diversified by geography and asset class. Developments during FY 2015 include shareholder approval for a 33 per cent reduction in capital to USD 67 million; the appointment of new Chief Executive Officer and Head of Asset Management; and the launch of the Company's new website.

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INVESTMENT REVIEW

INVESTMENT PORTFOLIO UPDATE

VENTURE CAPITAL

VCBANK LIQUIDITY PROGRAMME 1

This first-of-its-kind Shari'ah-compliant short-term liquidity programme, which completed its fifth year in 2015, is now fully subscribed with a long waiting list. The short-term trust certificates of the programme are backed by the prime asset of Venture Capital Bank Building, which comprises office space, retail outlets, and private and public car parks. The property currently enjoys 95 per cent occupancy of the office area and over 90 per cent occupancy of the private car park; while the public car park continues to experience strong demand and is fully occupied. The retail strip is also fully leased, following the signing of new contracts.

VCBANK LIQUIDITY PROGRAMME 2

VCBank's second liquidity programme was launched during FY 2015. The shares of this new programme are backed by the prime asset of the Jebel Ali Labour Accommodation complex, of which the first two buildings have been fully leased to reputable clients.

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, which is attributable to the growth in the number of treatments, increasing physiotherapy capacity, and improving operational efficiencies across all departments.

ROYAL MATERNITY HOSPITAL

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. Construction is almost completed, and fitting-out is at an advanced stage. Key developments during FY 2015 include the appointment of a Chief Executive Officer, finalisation of hospital pre-operations and operations plans, and liaison with relevant licensing authorities such as the National Health Regulatory Authority. The current anticipated opening date for the hospital is the first quarter of 2016.

AL KHOBAR SPECIALIST HOSPITAL

VCBank has partnered 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. This investment project draws upon VCBank's healthcare experience gained from the successful 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 project is currently at the development stage, and is progressing according to plan.

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1/2. Royal Maternity Hospital
3. German Orthopaedic Hospital
4. VCBank Liquidity Programme 1

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 average occupancy rate of over 98 per cent, revenues have remained consistently 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 during FY 2015 include the leasing of the majority of space at Maktabi Watayah commercial complex and the opening of the business centre; and the planned opening of the Muscat Grand Millennium Hotel during the third quarter of 2015. In addition, the mixed-use Muttawar Omani Company project was completed and leasing has commenced; a revised master plan for the Smart Logistics project was finalised; and ILS Oman – a supply chain and logistics services provider – has achieved an 80 per cent occupancy level.

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. Phase one of the Company's debut project – Gardinia Aziziyah – is expected to be completed in the second quarter of 2016. This affordable residential project, which comprises 156 housing units of duplexes and detached villas, is located in the Al-Aziziyah area of Al Khobar, close to Half Moon Beach and Prince Mohammed bin Fahd University.

MOZON INVESTMENT HOLDING COMPANY

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

INVESTMENT REVIEW

INVESTMENT PORTFOLIO UPDATE

REAL ESTATE

24 BUCKINGHAM GATE

In FY 2015, VCBank continued its successful foray into London's high-end residential property market. The Bank structured and advised on a GBP 30 million transaction for a select group of investors to acquire a prime freehold residential site under redevelopment. Situated in London's prestigious SW1 postcode district, close to Buckingham Palace and St. James's Park, 24 Buckingham Gate comprises eight apartments, each occupying one whole floor; together with a luxury, two-storey penthouse. The residences are individually designed with unique British flair, and feature traditional materials such as fumed oak floors. The property is due for completion by December 2015.

MAYFAIR CHAMBERS

Mayfair Chambers is situated in the Mayfair W1 conservation area, which is one of London's most prestigious residential locations, and second only to the prime SW1 postcode of Knightsbridge and Belgravia. This GBP 30 million property development comprises six luxurious residences of which four have already been sold, with the remaining two expected to be sold by the end of 2015. This investment has been partially exited, with investors having received 80 per cent of their invested capital.

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 project involves demolishing the existing commercial-use sections, and redeveloping 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 2015 include receipt of planning approval from Westminster City Council, and signing of a term sheet for development financing with ABC International Bank, UK. In addition, the main contractor and a new project manager have been appointed, together with mechanical, electrical and plumbing (MEP) and structural engineers. Consulting engineers were also appointed to conduct a value engineering process to identify opportunities for maximising value across the scheme design. Having taken possession of the fully vacant site, the construction team have commenced the pre-demolition stage which includes asbestos removal and soft strip works.

JEBEL ALI LABOUR ACCOMMODATION

This project involved the construction of three strategically-located labour and staff accommodation buildings in the Jebel Ali Industrial Area, Dubai. Fully-compliant with the latest UAE regulations for labour accommodation, the buildings will provide high-quality accommodation and supporting amenities for over 4,300 workers. Two buildings have already been fully rented to reputable clients. In FY 2015, the project was partially exited through an asset backed liquidity programme of USD 59.5 million. The remaining building is expected to be rented by the end of 2015.

1. Park Crescent West
2. Jebel Ali Labour Accommodation
3. Mayfair Chambers

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ONE BAHRAIN

Due to the ongoing recovery in Bahrain's real estate sector, VCBank has taken steps to revive this project and commence construction. The financial model has been refined and updated in order to invite strategic investors to participate in an equity contribution. 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 originally acquired through a joint-venture with a Bahraini partner. 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.

DIFAAF

This architecturally-distinguished real estate development consists of two high-rise residential towers strategically located on Reef Island, off the north coast of Manama in Bahrain. The land has been purchased and designs drawn up; and preliminary construction works, such as piling, have been completed. During FY 2015, VCBank successfully executed the plan to revive this project in view of the improving economic environment, property market and demand for residential apartments in Bahrain. A memorandum of understanding was signed with a contractor to adopt value engineering and re-design techniques in order to reduce construction costs and achieve the required target price. In addition, the Bank has arranged for a capital increase of USD 18.75 million in order to proceed with construction, securing project financing in order to complete the project, and signed a pre-construction services agreement with the contractor.

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 unique seafront plot measuring over 35,000 square metres in Hidd, Bahrain. Recently, there have been positive developments in the Hidd area, with the announcement of new projects and the opening of the Shaikh Khalifa Park. To date, the project company has not entered into any major agreements with service providers such as banks, consultants, architects or contractors. This has allowed it to assess the market and take advantage of the recovery of Bahrain's real estate sector, and expected reductions in the cost of construction and related development expenses. The project team is currently considering an option to sub-divide the land into several parcels which could provide an attractive exit for investors. Consultants have been appointed to follow up on this issue with the relevant authorities.

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.

FY 2015 proved to be another challenging year, particularly the first six months, which were highlighted by severe market volatility, a dramatic drop in oil prices which affected planned government spending, and heightened geo-political tensions across some parts of the MENA region. The second half of the year, however, proved to be more positive, with most regional markets recovering and oil prices stabilising. Against this backdrop, the team maintained its close client relationships through regular visits across the region, and was successful in offering a number of new investments with a total capital raising of approximately USD 160 million.

First, continuing its successful foray into London's high-end residential property market by structuring and advising on a GBP 30 million transaction for a select group of investors to acquire a prime freehold residential site under redevelopment – 24 Buckingham Gate, W1. A uniquely-designed building close to Buckingham Palace and St. James's Park, the property comprises eight apartments and a penthouse, with completion expected by the end of 2015.

Another transaction involved the acquisition of a 45 per cent stake in Saudi-based Delta Company Limited. Established in 1976, Delta has grown to become one of the Kingdom's leading contractors in the fields of electrical power, transmission and distribution; and is also active in broadcasting, telecommunications, and operations and maintenance. This investment illustrates the Bank's policy of diversifying its portfolio through the acquisition of successful companies with high-growth potential in non-cyclical sectors.

A significant success was the partial exit of the Jebel Ali Labour Accommodation complex through the launch of the Bank's second Liquidity Programme of USD 59.5 million, which is backed by two completed and fully leased buildings of the complex. This development builds upon the success of the first VCBank Liquidity Programme, which is now fully subscribed with a long waiting list.

In terms of existing investments, the Bank returned 80 per cent of investors' capital, following the sale of four out of six apartments of the prestigious Mayfair Chambers London property development. In Bahrain, the revival plan of the Difaaf Development Project located at Reef Island was successfully executed through a capital increase of USD 18.75 million; while the Bank is talking to strategic investors regarding One Bahrain, also located at Reef Island, where construction is planned to start.

VCBank is committed to providing the highest levels of client service. During FY 2015, the Bank's new client relationship management (CRM) system was fully implemented. Incorporating highly-sophisticated client profiling, the system will enable VCBank to provide shareholders and investors with a more focused and responsive service.

In order to meet clients' needs for more diversified wealth management solutions, VCBank continued to expand its product offering during the year with the introduction of a new liquidity programme. Additional products are under consideration. The Bank also finalised a timetable of planned investments exits, and identified a number of new deals, which are expected to be concluded during FY 2016.

Since the establishment of VCBank 10 years ago, the Wealth Management team has successfully placed all the investment offerings of the Bank with an estimated value of USD 1.7 billion, 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

VCBank continued its recruitment programme during the year to support the growth and development of the business. Additional professionals were hired for key areas such as Investments, Post-Acquisition, Wealth Management and Internal Audit. At the end of fiscal year 2015, the headcount had risen to 48 from 45 at the end of the previous year. HR developments included revision of the Bank's succession plan, which is in the final stages; completion of a new Employee Handbook containing revised HR policies and procedures, which was distributed to all employees; and collaboration with the IT division for the commissioning of a new time and attendance system.

During the year, VCBank adopted regulations concerning Sound Remuneration Practices issued by the Central Bank of Bahrain, and appointed external consultants to propose revisions to its variable remuneration framework.

TRAINING & DEVELOPMENT

The Bank continued to invest in human resource development and training, with a particular focus on supporting staff to gain relevant professional and postgraduate qualifications. In FY 2015, this included two members of staff gaining certification to the Chartered Institute of Personnel Development (CIPD), and one attaining a Master's degree in Finance. Three members of the Bank's management team participated in the CBB Waqf Fund Leadership Grooming Programme, which was conducted by one of the leading business schools in North America. Selected staff training continued to be provided by the Bahrain Institute of Banking & Finance (BIBF). In addition to Islamic banking-related training, VCBank staff attended courses covering ethics and governance, quality, managing change, time management, information technology and communications; while regulatory anti-money laundering (AML) training was conducted online.

INVESTOR RELATIONS

VCBank is committed to providing the highest levels of client service. During FY 2015, the new client relationship management (CRM) system was fully implemented, which will enable the Bank to provide shareholders and investors with a more focused and responsive service. Also during the year, VCBank completed full implementation of CBB requirements relating to the Foreign Account Tax Compliance Act (FATCA) framework. This included registering with the IRS, obtaining a global intermediary identification number (GIIN), and issuing relevant tax forms and a self-assessment questionnaire for completion by clients.

CORPORATE COMMUNICATIONS

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. The Bank's revamped website, which was launched last year, has been well received by stakeholders. Corporate social responsibility (CSR) activities carried out by the Bank during the year are covered under a separate CSR section in this annual report.

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 updating all systems and servers, and improving the speed and functionality of back-up recovery systems; while the server virtualisation project, designed to provide higher availability, is at the planning stage. Also during the year, the relocated disaster recovery site was fitted out prior to initial testing. Information security remained a priority, with the successful testing of the intrusion prevention system being conducted in-house by the Bank's CEH-qualified Information Security Officer. Following implementation of the new CRM system, an external technical audit was commissioned to verify compliance with requirements and identify future enhancements.

FINANCIAL CONTROL

During the year, the Financial Control division continued to play a key role in supporting and meeting the information requirements of the Board, senior management, and investment and wealth management teams. The division is responsible for all financial accounting and reporting 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 of Bahrain. During the year, an updated liquidity management policy was implemented, and external consultants were appointed to assist the Bank in updating its revenue recognition policies and procedures to ensure that it is fully in compliance with the new revenue recognition standard IFRS 15 issued by the International Accounting Standards Board. The Financial Control division also played a key role in working with an independent firm of external consultants and Human Resources in the exercise to revise the Bank's remuneration framework in line with CBB's new sound remuneration requirements.

CORPORATE SOCIAL RESPONSIBILITY

Venture Capital Bank has an enduring commitment to contribute to the economic development and social well-being of the Kingdom of Bahrain. As part of its corporate social responsibility (CSR) programme, the Bank actively supports the growth of the Islamic banking industry while helping to develop the leadership potential and career prospects of Bahraini nationals. Some examples of the Bank's CSR activities during fiscal year 2015, including environmentally-friendly initiatives, are listed below.

SPONSORSHIP OF INDUSTRY EVENTS

VCBank sponsored a number of prominent Islamic banking and related business conferences during FY 2015, including the following:

21ST WORLD ISLAMIC BANKING CONFERENCE - BAHRAIN

Now in its third decade, this event has developed into the world's largest gathering of global Islamic finance leaders and experts. The conference attracts more than 1,000 attendees annually, providing a high-level platform for debating latest issues and exchanging ideas.

GLOBAL ISLAMIC INVESTMENT GATEWAY – BAHRAIN

Organised by the Economic Development Board of Bahrain and the Islamic Development Bank, this new event is aimed at generating business in the global Islamic finance sector by linking investors with opportunities aligned to their preferences.

AAOIFI / WORLD BANK ANNUAL CONFERENCE ON ISLAMIC BANKING & FINANCE - BAHRAIN

This conference forms part of the ongoing consultative process by the Accounting & Auditing Organisation for Islamic Financial Institutions and the World Bank with the international Islamic financial industry. The conference's primary focus covers the development and review of standards on Shari'ah, accounting, ethics and governance.

CBB WAQF FUND

VCBank is a longstanding member institution of the Waqf Fund which was established in 2006 under the auspices of the Central Bank of Bahrain in partnership with local Islamic financial institutions. Dedicated to supporting Islamic training, education and research, the Fund executes its numerous initiatives through partner institutions such as the Bahrain Institute of Banking & Finance, and international educational establishments.

LEADERSHIP GROOMING PROGRAMME

Three members of the Bank's management team attended this latest initiative by the Waqf Fund during FY 2015. The Fund engaged the Ivey Business School (IBS) of Western University, Canada – one of North America's oldest and leading providers of business education – to develop a customised leadership grooming programme for Bahrainis in middle management positions with Islamic financial institutions. The aim of the programme is to prepare the next generation of C-suite executives to lead the industry's growth and development. Training has been conducted at the IBS campus in Hong Kong and will soon be conducted in Toronto, using an interactive case study methodology, to develop leadership skills, strategic thinking and ethics; and provide exposure to the Asian business model and Canada's financial sector.

SUMMER INTERNSHIPS

VCBank continued to provide students from different universities with a two-month summer internship programme. This is designed to introduce them to the working world, and learn about different aspects of Islamic banking and the career opportunities that it offers.

GREEN INITIATIVES

BAHRAIN GREEN CAPITAL PROJECT

VCBank's unique rooftop garden, which provides a green oasis amid the 'concrete jungle' of Manama's business district in the Diplomatic Area, supports the Green Capital Project launched at last year's Bahrain International Garden Show by His Excellency the Capital Governor, Shaikh Hisham bin Abdulrahman Al Khalifa. The project aims to encourage environmentally-friendly businesses and promote greenery in Bahrain, starting with the Kingdom's capital city, Manama. The Bank's rooftop garden, which features trees, plants, flowers and grassed areas, is used for staff meetings as well as providing a conducive thinking space and peaceful retreat from the office. H.E. the Capital Governor visited the garden in March 2015 and congratulated the Bank on its innovative contribution to a greener capital.

PAPERLESS OFFICE

During the year, VCBank moved closer to its goal of being a 'paperless organisation' through the extended use of smart devices and tablets for meetings (including the Board of Directors), and also by the Investment, Wealth Management and Investor Relations teams.

RISK MANAGEMENT REVIEW

The ultimate accountability for oversight of risk management at VCBank resides with the Board of Directors. The Board delegates its responsibility to the Board Risk Committee for oversight of risk management.

To manage the risks to which VCBank is exposed, and to safeguard the funds that have been entrusted to the Bank by investors and shareholders, a risk governance framework has been established and continuously developed. This framework starts with strategic-level risk management tools such as committee terms of reference, risk appetite and policies, which are then used to guide the development of the risk management process at an operational level. The Board Risk Committee evaluates the effectiveness of risk management, using the risk reports that are presented to it. Based on this information, the Committee evaluates the effectiveness of risk management, and identifies any improvements that are required.

The Head of Risk Management reports directly to the Risk Committee of the Board, and administratively to the Chief Executive. The independent Risk Management Department is responsible for providing an enterprise-wide approach to risk management; proactively identifying, monitoring and mitigating all embedded risks; establishing risk management standards; and instilling an organisational culture whereby all employees are individual owners of risks.

INVESTMENT RISK

Investment risk is the risk of loss due to inappropriate investment decisions or a failure in the investment and portfolio management process.

This risk is mitigated as follows:

- A robust origination and transaction approval process which is designed to assess and challenge the vulnerability of each proposed deal
- Rigorous sensitivity testing of exposure to risk factors
- Concentration risk limits are designed to limit sectoral, geographical and other concentrations, and achieve the benefit of diversification

OPERATIONAL RISK

Operational risk is the potential for loss arising from the failure of people, processes or technology, or the impact of external events.

Operational risk is an intrinsic aspect of VCBank's business model as it has complex business processes in areas such as transaction management, portfolio management, financial reporting and control, maintenance of the internal operating infrastructure, and assessment of risk.

VCBank employs an operational risk management framework. As part of this framework, all functional teams are required to participate in a risk and control self-assessment (RCSA) in which they map business processes and report risks, controls and assessments of risk likelihood and impact, to the Risk Management Department.

Examples of key risk factors:

- Failure in documentation which underpins the Bank's rights in respect of its assets
- Errors in data or calculation
- Breach of regulatory or legal requirements relating to financial crime, money laundering, conflicts of interest, and the safe keeping and disclosure of information
- Price sensitive information being used for personal gain by employees
- Loss of or damage to physical premises, IT systems and staff
- Failure in the management of existing portfolio assets, such as failing to make or monitor payments
- Conflicts of interest and confidentiality breaches which could harm clients

LIQUIDITY RISK

Liquidity risk is the risk that VCBank does not have sufficient financial resources in the short term to meet its financial obligations as they fall due, or that its strategy is constrained by inadequate or inappropriate funding sources.

Liquidity risk is mitigated as follows:

- Senior executive accountability for forecasting the Bank's cash requirement on the basis of operational and investment payments to be made or received
- Maintaining a sufficient liquidity buffer to meet requirements as they fall due
- Replenishing this buffer as required by means of additional borrowings or funding

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. VCB 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.

Detailed information concerning the risks to which VCBank is exposed is contained in the Notes to the Consolidated Financial Statements and in the Basel II Pillar 3 Disclosures of this Annual Report.

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

VCBank continued to strengthen the knowledge base of the Board of Directors and the Executive Management. During the year the Bank sponsored a number of prominent events in the Islamic banking industry, such as the 21st World Islamic Banking Conference, the Global Islamic Investment Gateway, and the AAOIFI/World Bank Annual Conference on Islamic Banking and Finance. Such sponsorship contributed positively in the success of these prominent events as well as created a lucrative channel for the Bank's Executive Management to leverage their network and expand their knowledge and expertise via their active participation. During the year, three members of the Bank's management team enrolled in the Waqf Fund's Leadership Grooming Programme, in cooperation with Ivey Business School. Furthermore, 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 AND MEMBERSHIP

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

CORPORATE GOVERNANCE REVIEW (CONTINUED)

DIRECTORS' ATTENDANCE JULY 2014 TO JUNE 2015

The Board of Directors and its Committees meet regularly towards fulfilling their responsibilities. A summary of the Board and its Committees meetings is listed below:

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 AlSulaiman	4 of 4c	3 of 3c			3 of 3	3 of 3c
Mr. Abdulfatah Moh'd Rafie Marafie	4 of 4	3 of 3			3 of 3c	3 of 3
Mr. Abdullatif Moh'd Janahi	4 of 4	3 of 3				
Mr. Saleh Moh'd Al Shanfari	4 of 4	3 of 3	4 of 4c			
Mr. Marwan Ahmed Al Ghurair	4 of 4			4 of 4		
Mr. Nedhal Saleh Al Aujan	4 of 4			4 of 4c		
Mr. Sulaiman Ibrahim Al Hudaithi	4 of 4					3 of 3
Mr. Abdulhadi Treheeb Al Shahwani	2 of 4		2 of 4			
Mr. Mohammad Abdulrazzaq Alkandari	4 of 4	3 of 3				
Mr. Mohammed Abdulaziz Al Sarhan	4 of 4		4 of 4		3 of 3	
Mr. Yasser Mohammed Al Jarullah	4 of 4			4 of 4		
Mr. Khalid Abdulaziz Al Mediheem	4 of 4					

c - Denotes Chairman

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 the 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 enterprise (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 towards 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 time frame towards 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 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 the 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 recommendations 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, recordkeeping, and staff education and training.

CORPORATE GOVERNANCE REVIEW (CONTINUED)

GOVERNANCE CONTROL FUNCTIONS (continued)

ANTI-MONEY LAUNDERING (continued)

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 reviews 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 objectives, VCBank implemented alternative internal arrangements as explained below.

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 the 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 (SSB), 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 SSB for greater transparency.

BOARD AND EXECUTIVE MANAGEMENT REMUNERATION

- The Nomination and Remuneration Committee of the Board («NRC») assists the Board in determining the remuneration and compensation of the Board and Executive Management, including executive incentives and any share based or other entitlements. The members of the NRC and their attendances during the year are disclosed in the Annual Report.
- During the year the Bank has taken steps to revise and update its remuneration policy to align it with the CBB's new rules regarding Board and Executive Management remuneration which has become effective for the current year. The Bank's revised remuneration policy and procedures have been prepared with the assistance of a specialized consulting firm who have advised the NRC in framing the polices and procedures in compliance with the CBB's requirements. These have been approved by the NRC and are expected to be formally approved by the Board subsequent to the year end and by the shareholders at the AGM. The Bank is committed to full compliance with the CBB's requirements covering sound remuneration which are fully reflected in the revised policy and procedures which have been put into effect for the year ended 30 June 2015.
- The revised remuneration policy is designed to:

  > Attract, motivate and retain key employees,

  > Ensure reward is linked to risks and aligned with long term performance goals,

  > Encourage employees to continue to perform and be cost effective.

  Employee compensation comprises a fixed portion representing salaries and benefits, plus a variable portion based on corporate and individual performance as adjusted for risk. A substantial portion of the variable portion for senior management is deferred over three years and equity linked, and accordingly subject to clawbacks for subsequent changes in financial performance.
- Board compensation comprises sitting fees for attendances plus a discretionary annual Board remuneration based on the recommendation of the NRC and subject to approval by the AGM. Board remuneration is disclosed in the notes to the financial statements. The members of the NRC received sitting fees of USD 18,000 during the year ended 30 June 2015 (2014: USD 18,000).
- Shari'ah Supervisory Board compensation comprises a fixed annual fee plus travel and related costs for their services.
- Executive Management compensation comprises a mix of fixed and variable remuneration in line with the CBB's requirements on sound remuneration. Fixed compensation comprises salaries and benefits in line with market and industry norms for the levels of expertise and experience, seniority and knowledge concerned. Variable remuneration comprises annual incentives based on the Bank's performance and profitability, plus individual performance and contribution of employees concerned. Due regard is made to align variable remuneration with risk to ensure convergence of employees interests with shareholders interests and the long term profitability of the Bank. The Bank uses appropriate metrics such as return on equity, capital adequacy and extent of realized vs. unrealized income and gains in assessing the amount and distribution of variable remuneration to employees.
- In compliance with the new regulations, the CEO and his key deputies, comprising the senior Investment and Wealth Management team members are rewarded based on the Bank's performance with due regard to risk taking and exposures and risk outcomes. A significant portion of their variable remuneration is deferred over a period of at least 3 years. The deferred portion is 60% for the CEO and his key deputies, and 50% for all others whose aggregate annual compensation exceeds BHD 100,000 as required by the CBB. Additionally, 50% of the variable remuneration is awarded in the form of phantom share units linked to the net book value of the Bank's ordinary shares.
- The remuneration policy takes into consideration all key risks that the Bank is exposed to in determining the quantum and distribution of incentives to ensure that remuneration is adjusted for risk taken and aligned with realization of income. In this regard the NRC considers the overall performance for the year by reviewing the performance of the Bank's investment offerings versus target returns, and of the Bank's actual net income and return on equity (ROE) achieved versus budgeted etc. to arrive at a corporate performance scorecard. No incentive is payable unless a minimum 70% corporate performance scorecard is achieved. Additionally, the individual performance of each employee based on performance appraisals is taken into consideration in determining the distribution of the incentive pool, thus ensuring that both corporate and individual performance aspects are taken into consideration in the determination of performance rewards.
- The following metrics are used in this regard: actual ROE vs. target; actual net income vs. target; weighted average IRR achieved on investment projects during period vs. target; capital adequacy ratio, etc. plus individual performance scorecards reflecting their individual performance achievements.
- The Bank is committed to full compliance with the CBB's rules which underpins the remuneration policy and requires that compensation is commensurate with risk outcomes and that the compensation of staff in control functions such as Internal Audit, Risk, Compliance and Financial Control is weighted in favour of fixed, with a greater weightage given to variable compensation for staff categorized as material risk takers in Investment and Wealth Management functions. Additionally, the incentive of staff in control functions is independant of the performance of business units, subject to an overriding criteria of minimum corporate scorecard achievement. The revised remuneration policy takes into consideration all these aspects and requirements whilst relating it to the specific circumstances and activities of the Bank. The revised remuneration policy is subject to annual review to ensure it properly reflects the Bank's business and risk profile from time to time so that the objective of ensuring that staff are rewarded in line with performance with due regard for risk taken is achieved.
- There were no guaranteed bonuses awarded during the year or prior year.
- There were no sign on awards paid during the year or prior year.
- There were no severance payments made during the year or prior year.
- Summary of compensation for year ended 30 June 2015

		Fixed	Variable		Total
Particulars	No	Upfront	Upfront	Deferred	$' 000
Approved persons in business lines	4	1,663	212	319	2,194
Approved persons in control & support	9	1,106	119	27	1,252

There are no material risk takers other than the approved persons in business lines.

All upfront amounts are in cash. Deferred amounts comprise phantom units paid in cash over deferral period based on net book value at each year end over the three year deferral period.

CORPORATE GOVERNANCE REVIEW (CONTINUED)

BOARD AND EXECUTIVE MANAGEMENT REMUNERATION (continued)

- Summary of deferred compensation as at 30 Jun 2015

Particulars	No of phantom units '000	NAV $	Value $' 000
Opening balance	-	-	-
Awarded during year and closing balance	283.84	1.219	346.00

- Summary of compensation for prior year ended 30 June 2014

		Fixed	Variable		Total
Particulars	No	Upfront	Upfront	Deferred	$' 000
Approved persons in business lines	5	1,996	934	-	2,930
Approved persons in control & support	8	1,087	261	-	1,348

BOARD MEMBERS' PROFILES

Dr. Ghassan Ahmed AlSulaiman

Chairman

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

VCBank Committees: 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; Developed Suppliers Co. Limited.
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
Elected 6 October 2005
35 years' experience

VCBank Committees: Chairman of Corporate Governance Committee and Real Estate Committee; Deputy Chairman of Finance & Investment Committee and Nomination & Remuneration Committee.
Chairman, 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.
Chairman & Chief Executive Officer: Mutajara Real Estate Company.
Chairman: The Commercial Real Estate Development Company.
Board Member and Vice Chairman of Investment Committee: The Public Institution for Social Security (PIFSS).
Board Member, Member of Nomination & Remuneration Committee and Corporate Governance 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.
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
Elected 6 October 2005
32 years' experience

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

Marwan Ahmad Al Ghurair
Board Member

United Arab Emirates
Independent and Non-Executive Director
Elected 6 October 2005
25 years' experience

VCBank Committees: Member of Audit Committee.
Chairman: Fanan Investments; Semakan Holdings; 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
Elected 6 October 2005
27 years' experience

VCBank Committees: Chairman of Risk Committee; Member of Finance & Investment Committee(non-voting).
Chairman: Anamaa Poultry; **Chairman of the Executive Committee**: Mazoon Dairy; Global Computer Services Company.
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) Asaffa Foods; Asaffa Meat Processing Company; Asaffa Table Eggs (layer) Company; Gpcore India LLC.

Nedhal Saleh Al Aujan
Board Member

Kingdom of Bahrain
Independent and Non-Executive Director
Elected 6 October 2005
32 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.
Chairman of the Executive Committee: Bahrain Business Incubator Centre.

Sulaiman Ibrahim Al Hudaithi
Board Member

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

VCBank Committees: Member of Nomination & Remuneration Committee.
Chairman of the Board: Saudi Printing & Packaging Company; Saudi Specialised Laboratories Company; Saudi Research & Marketing Group.
Board Member: 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
Elected 4 March 2009
42 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
Elected 25 April 2012
38 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
Elected 25 April 2012
15 years' experience

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

CORPORATE GOVERNANCE REVIEW (CONTINUED)

Yasir Mohammed Al Jarullah
Board Member

Kingdom of Saudi Arabia
Independent and Non-Executive Director
Elected 25 April 2012
12 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
Elected 23 January 2013
42 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
32 years' experience

One of the originators and key founders of VCBank. He is the Chairman of Jordan Al Abyad Fertilizers and Chemicals Company (JAFCCO), German Orthopaedic Hospital in Bahrain, Royal Maternity Hospital Holding W.L.L, Lemissoler Maritime Company, Industrial & Financial Investments Company in Kuwait. 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, 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
16 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
Senior Executive Director - Investments

Member of the Executive Management Committee
Joined VCBank in 2007
18 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 - Head of Financial Control

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

Mr. Santhosh Jacob Karipat has extensive experience in accounting and finance, investment analysis and valuations, auditing, internal controls and risk management gained from his over 33 years of working experience with 'Big Four' accountancy firms in the UK and Middle East and in the investment banking sector. He has significant knowledge and experience in application of accounting standards such as IFRS and AAOIFI, and of the detailed regulatory and prudential requirements for banks. Prior to joining VCBank in early 2006, 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 - Head of Operations & Support

Member of the Executive Management Committee
Joined VCBank in 2006
30 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) in Riyadh. 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 where she was in charge of different units such as Reporting & Profit analysis, Costing & Budgeting, Cash & Banking, Payroll & Benefits, Retail 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
13 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 in 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.

M. Sohail Malik
Executive Director - Head of Post-Acquisition, Investments

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

Mr. Sohail Malik is the Head of Post-Acquisition in the Investments Division and a board member on a number of VCBank's investments. He has over 20 years of experience in providing advisory and assurance services to the finance, private equity, corporate and investment banking industries in the Middle East and the UK. He is primarily responsible for the post-acquisition monitoring of Private Equity and Venture Capital investments, as well as deal origination and execution. Prior to joining VCBank, he was in Ernst & Young as the Executive Manager in charge of Business Risk Services in Bahrain, where he helped enhance the operational, risk and corporate governance frameworks of several leading financial institutions operating in the Middle East, Europe and USA. A member of the Association of Chartered Certified Accountants, UK, and holder of the Certified Information Systems Auditor, USA qualification, Mr. Malik also possesses a Bachelor of Accounting & Finance degree from the University of Wales, UK. He has completed the General Securities Qualification Examination (CME-1) from the Capital Market Authority, KSA.

Menir Ahmed
Director - Head of Risk Management

Member of the Executive Management Committee
Joined VCBank in 2013
30 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
12 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.

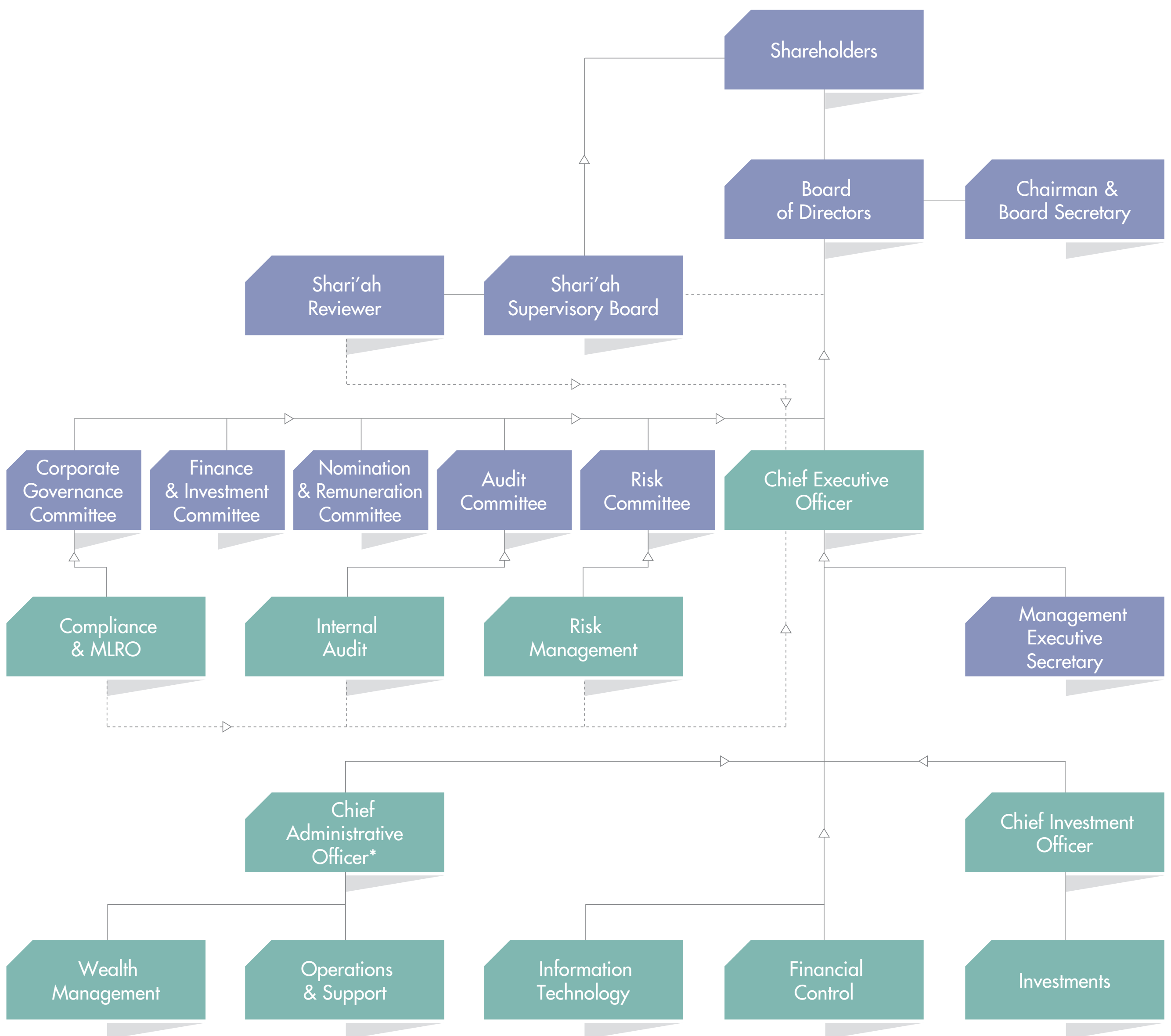
Asya Hasan
Director - Head of internal Audit

Member of the Executive Management Committee
Joined VCBank in 2015
17 years' experience

Ms. Hasan is specialised in the field of assurance, attest services, and professional practices, she has an extensive exposure to International Financial Institutions (IFIs), and is specialised in assurance related to sovereign lending by the Monetary Funds to finance fiscal deficits and balance of payment. Before joining VC, she was a senior member of the finance department at the Arab Monetary Fund, where she was in charge of risk assessment and compliance on lending to member states. Ms. Hasan was a staff member of the International Monetary Fund (IMF), responsible for conducting financial safeguards assessment of central banks of borrowing members of the IMF to manage the risk of misuse and misreporting of the Fund's financial resources. Ms. Hasan covered a geographically diversified region including member states in South America, Southeast Asia, West Africa, Europe, and the Middle East.

Prior to her involvement with IFIs, Ms. Hasan held different positions in the field of internal audit, external audit, and Bank examinations. She was a Senior Audit Manager with Ahli United Bank; a Senior Bank Examiner in the Central Bank of Bahrain; and a Senior Auditor in the financial services industry division with Ernst & Young. Ms. Hasan is a Licensed Certified Public Accountant (CPA) by the California Board of Accountancy; holds an MBA with a concentration in Finance from DePaul University Business School, Chicago, USA; and a BSc degree in Accountancy from the University of Bahrain.

GOVERNANCE AND ORGANISATION STRUCTURE



*To be appointed

VCBank posted a strong financial performance for FY 2015. Total income including recovery of previously impaired assets increased to USD 30.9 million from USD 28.6 million the previous year, while total expenses reduced to USD 12.6 million from USD 13.2 million for FY 2014. As a result, the Bank posted a net profit in FY 2015 of USD 14.1 million compared with USD 14.6 million for the previous year, equating to a return on net paid-up capital of 7.8 per cent.

FINANCIAL STATEMENTS

Contents

VENTURE CAPITAL BANK

In the name of Allah the Merciful, the Compassionate

Report of the Shari'ah Supervisory Board for period from 01/07/2014 to 30/06/2015

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 01/07/2014 to 30/06/2015.

It has studied and discussed, with the Bank's management, the financial statements and the income statement for the period from 01/07/2014 to 30/06/2015.

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.

Venture Capital Bank Shari'ah Supervisory Board
SSB/15-10/001
15/10/2015

Abdulsattar Abu Ghodah	Nidham Bin Mohammed Saleh Yaqoobi	Issa Zaki
Shariah Member	Chairman, Shariah Supervisory Board	Shariah Member

Executed on Thursday, 01/01/1437 H, corresponding to the 15/10/2015

Venture Capital Bank, P.O. Box 11755, Manama, Kingdom of Bahrain
T +973 17 518888 • F +973 17 518880 • E info@VC-Bank.com • www.VC-Bank.com

REPORT OF THE AUDITORS

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated statement of financial position of Venture Capital Bank B.S.C. (c) (the "Bank") and its subsidiaries (the "Group") as of 30 June 2015, and the related consolidated statements of income, changes in equity, cash flows and changes in off-balance sheet equity of investment account holders for the year then ended, 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'a Rules and Principles are the responsibility of the Bank'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 2015, the results of its operations, its cash flows, changes in equity and changes in off-balance 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 during the year ended 30 June 2015 that might have had a material adverse effect on the business of the Bank or on its consolidated 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'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

Ernst & Young

Partner's registration no: 45

14 July 2015

Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

	Note	June 30 2015 USD '000	30 June 2014 USD '000
ASSETS			
Balances with banks		2,314	2,797
Placements with financial institutions	8	410	9,414
Investments	9	163,045	145,741
Investments in associates and joint venture accounted under the equity method	10	27,816	27,847
Receivables	12	27,345	31,335
Funding to project companies	13	13,860	14,083
Other assets	14	7,197	8,901
Property and equipment	15	8,833	9,284
Total Assets		250,820	249,402
Liabilities			
Islamic financing payable	16	20,011	20,188
Employee accruals		6,131	5,969
Other liabilities	17	5,211	7,227
Total liabilities		31,353	33,384
Equity			
Share capital	18	190,000	190,000
Unvested shares of employee share ownership plan		(10,000)	(10,000)
Statutory reserve	18	4,931	3,525
Investment fair value reserve	18	-	1,196
Foreign currency translation reserve		(175)	-
Retained earnings		34,711	31,297
Total equity		219,467	216,018
Total Liabilities and Equity		250,820	249,402
Off Balance Sheet Items			
Equity of investment account holders		3,833	3,879

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 2015

	Note	2015 USD '000	2014 USD '000
Revenue			
Income from investment banking services	19	13,732	16,931
Finance income	20	212	202
Dividend income		304	1,564
Rental and other income	21	2,285	3,274
Total revenue		16,533	21,971
Other Gains (Losses)			
Fair value gains (losses) on investments at fair value			
through profit or loss–net	22	1,673	(2,233)
Gains from sale of investments–net	23	7,117	700
Gain on sale of investment property	11	–	3,253
Total income		25,323	23,691
Expenses			
Staff costs	24	7,263	7,784
Travel and business development expenses		509	522
Legal and professional fees		1,263	1,136
Finance expense	20	664	848
Depreciation	15	507	640
Other expenses	26	2,392	2,281
Total expenses		12,598	13,211
Profit Before Impairment Provisions And Share Of Losses Of Associates And Joint Venture		12,725	10,480
Impairment provisions (charged) / released–net	25	(3,703)	41
Recovery of impaired receivables	25	5,560	4,949
Share of losses of associates and joint venture–net	10	(524)	(453)
Profit Before Board Of Directors' Remuneration		14,058	15,017
Proposed Board of Directors' remuneration	28	–	428
Net Profit For The Year / Period After Proposed Board Of Directors' Remuneration		14,058	14,589

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 2015

	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	Foreign currency translation reserve USD '000	Employee share ownership plan reserve USD '000	Retained earnings USD '000	Total USD '000
Balance at 1 July 2014		190,000	-	(10,000)	3,525	1,196	-	-	31,297	216,018
Dividends for 2014	18e	-	-	-	-	-	-	-	(9,238)	(9,238)
Net profit for the year		-	-	-	-	-	-	-	14,058	14,058
Transfer to statutory reserve		-	-	-	1,406	-	-	-	(1,406)	-
Foreign currency translation difference on investment in an associate		-	-	-	-	-	(175)	-	-	(175)
Cumulative changes in fair value of available-for-sale investments		-	-	-	-	(1,196)	-	-	-	(1,196)
Balance at 30 June 2015		**190,000**	**-**	**(10,000)**	**4,931**	**-**	**(175)**	**-**	**34,711**	**219,467**
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

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2015

	Note	Year ended 30 June 2015 USD '000	Year ended 30 June 2014 USD '000
OPERATING ACTIVITIES			
Net profit for the year		14,058	14,589
Adjustments for non-cash items:			
Gain on investments	23	(7,117)	(700)
Share of results of associates and joint venture accounted under the equity method	10	524	453
Impairment provisions charged (released)–net	25	3,703	(41)
Depreciation	15	507	640
Gain on disposal of property and equipment		–	(3)
Dividend income		(304)	(1,564)
Gain on sale of investment property	11	–	(3,253)
Fair value gains (losses) on investments at fair value through profit or loss–net	22	1,673	(2,233)
Operating profit before changes in operating assets and liabilities		13,044	7,888
Changes in operating assets and liabilities:			
Investments		(14,956)	(8,813)
Investments in associates and joint venture accounted under the equity method		(668)	–
Receivables		3,520	(15,440)
Funding to project companies		(1,077)	(2,901)
Other assets		802	1,909
Employee accruals		(159)	1,860
Other liabilities		(2,016)	3,264
Net cash used in operating activities		(1,510)	(12,233)
Investing Activities			
Dividends received		1,173	1,080
Dividends paid		(8,917)	–
Property and equipment–net	15	(56)	(9)
Proceeds from sale and redemption of investments		–	5,573
Net cash (used in) from investing activities		(7,800)	6,644
Financing Activity			
Islamic financing payables		(177)	7,177
Net cash (used in) from financing activity		(177)	7,177
Net (Decrease) / Increase in Cash and Cash Equivalents		(9,487)	1,588
Cash and cash equivalents at beginning of the year		12,211	10,623
Cash and Cash Equivalents at end of The Year		2,724	12,211
Comprising of:			
Balances with banks		2,314	2,797
Placements with financial institutions	8	410	9,414
		2,724	12,211

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 2015

2015	Balance as at 1 July 2014 USD '000	Movements during the year: Investment / (distribution) USD '000	Fair value movement / (impairment) USD '000	Net loss USD '000	Bank's fees as an agent USD '000	Balance as at 30 June 2015 USD '000
GCC Pre IPO Fund	3,879	(29)	135	(152)	-	3,833

2014	Balance as at 1 July 2013 USD '000	Movements during the year: Investment / (distribution) 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

	2015 USD '000	2014 USD '000
Investment in equities	3,806	3,877
Dividends receivable	25	-
Balances with banks	2	2
Total as at 30 June	3,833	3,879

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 IPOs. 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 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, Manama, 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'a under the guidance and supervision of the Bank's Shari'a Supervisory Board, and in compliance with applicable laws and regulations.

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary companies (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 14 July 2015.

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 Organization (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") provided it does not conflict with the Shari'a Rules and Principles and the conceptual framework of AAOIFI.

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 statements of the subsidiaries are prepared using consistent accounting policies.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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 completion of the project 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 Group's 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.

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 AMENDED STANDARDS AND INTERPRETATIONS

Standard issued and effective for adoption from 1 January 2014

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous year.

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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(iii) Group companies

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

(b) Financial assets and liabilities

(i) Recognition and de-recognition

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

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

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

(i) the right to receive cash flows from the asset has expired;

(ii) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

(iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

(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 in real estate

Under FAS 26 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.

(d) 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Impairment of investments

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

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

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

(e) 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.

(f) 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.

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.

(g) 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(h) 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.

(i) 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.

(j) 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

(k) 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) 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.

(s) 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 Organization (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. The Group has presently suspended the employee contributions in respect of the scheme and is currently undertaking a review of the existing ESOP.

(t) 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.

(u) 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.

(v) 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.

(w) 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'a) to set off the recognised amounts and the Group intends to settle on a net basis.

(x) Trade and settlement date accounting

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

6. INVESTMENT IN SUBSIDIARIES

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

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

7. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The Group's financial instruments have been classified as follows:

At 30 June 2015	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	–	–	2,314	2,314
Placements with financial institutions	–	–	410	410
Investments	108,928	54,117	–	163,045
Receivable from investment banking services	–	–	27,345	27,345
Funding to project companies	–	–	13,860	13,860
Other assets	–	–	6,934	6,934
Total Financial Assets	108,928	54,117	50,863	213,908
Islamic financing payable	–	–	20,011	20,011
Other liabilities	–	–	2,125	2,125
Total Financial Liabilities	–	–	22,136	22,136
Off Balance Sheet Items				
Equity of investment account holders	–	3,806	27	3,833
At 30 June 2014				
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

8. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	30 June 2015 USD '000	30 June 2014 USD '000
Short-term placements	411	9,428
Less: Deferred profits	(1)	(14)
	410	9,414

Short-term placements comprise commodity mudaraba deals entered into for cash management purposes with local Islamic banks of good credit standing. These carry annual profit rates ranging between 1.60% and 2.50% (2014: 0.20% and 2.00%) 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 2015 USD '000	30 June 2014 USD '000
Investments at fair value through profit or loss		
Quoted equities held for trading	2,816	897
Unquoted:		
Equities	93,376	79,314
Fund	12,736	13,446
	108,928	93,657
Available-for-sale investments		
Quoted equities	1,472	2,528
Unquoted equities	51,645	48,376
Short term liquidity certificates	1,000	1,180
	54,117	52,084
	163,045	145,741

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'a compliant asset backed certificates for which the carrying value approximates its fair value.

These unquoted available-for-sale investments comprise equites and debt instruments in the following market segments:

	30 June 2015 USD '000	30 June 2014 USD '000
Real estate projects	23,260	14,388
Business development projects	13,570	16,192
Healthcare projects	14,080	12,960
Financial services	1,735	1,915
Shipping	-	4,101
	52,645	49,556

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:

			% holding	
Name of associate	Nature of business	Country of incorporation	30 June 2015	30 June 2014
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
Venture Capital Fund	Small & medium enterprises investment fund	Kingdom of Bahrain	30	30

			% holding	
Name of joint venture	Nature of business	Country of incorporation	30 June 2015	30 June 2014
Global Real Estate Co. W.L.L.	Real estate development	Kingdom of Bahrain	50	50

	30 June 2015 USD '000	30 June 2014 USD '000
The carrying value comprises:		
Associates	3,110	3,699
Joint venture	24,706	24,148
	27,816	27,847

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

	30 June 2015 USD '000	30 June 2014 USD '000
At 1 July 2014 / 2013	27,847	25,033
Capitalisation of funding*	668	3,267
Foreign currency differences	(175)	-
Share of losses of associates and joint venture, net	(524)	(453)
At 30 June	27,816	27,847

* During the current and previous 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.

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

	30 June 2015 USD '000	30 June 2014 USD '000
Total assets	86,730	86,496
Total liabilities	28,362	27,033
Total revenues for the year	5,974	697
Total net loss for the year	(2,613)	(1,077)

11. INVESTMENT PROPERTY

This comprises a plot of land located in the Kingdom of Bahrain in which the Group held an ownership interest of 90%. During 2014 the Group sold its entire interest in the investment property to a development project in which two members of the Bank's board of directors hold a majority stake (refer note 28). The Group holds 18% stake in the development which is classified as an available-for-sale investment.

The Group realised a gain of USD 3,253 thousand from the sale which was recognised in the statement of income during 2014.

12. RECEIVABLES

	30 June 2015 USD '000	30 June 2014 USD '000
Receivable from investment banking services	35,762	31,680
Receivable on sale of investment property (note 28)	-	9,906
	35,762	41,586
Less: Specific impairment provision	(8,417)	(10,251)
	27,345	31,335

Refer to note 25 for movement in impairment provision.

13. FUNDING TO PROJECT COMPANIES

	30 June 2015 USD '000	30 June 2014 USD '000
Gross funding	31,543	34,802
Less: Impairment provision	(17,683)	(20,719)
	13,860	14,083

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.

Refer to note 25 for movement in impairment provision.

14. OTHER ASSETS

	30 June 2015 USD '000	30 June 2014 USD '000
Advances to acquire investments	3,995	7,065
Project costs recoverable	2,440	1,592
Dividend receivable	124	993
Other receivables	2,728	1,586
Less: Specific impairment provision	(2,090)	(2,335)
	7,197	8,901

Refer to note 25 for movement in impairment provision.

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 2014	10,098	1,656	4,697	483	16,934
Additions during the year	–	56	–	–	56
At 30 June 2015	**10,098**	**1,712**	**4,697**	**483**	**16,990**
Depreciation					
At 1 July 2014	1,254	1,572	4,549	275	7,650
Charge for the year	278	57	83	89	507
At 30 June 2015	**1,532**	**1,629**	**4,632**	**364**	**8,157**
Net book value at 30 June 2015	**8,566**	**83**	**65**	**119**	**8,833**
Net book value at 30 June 2014	8,844	84	148	208	9,284

16. ISLAMIC FINANCING PAYABLE

		30 June 2015 USD '000	30 June 2014 USD '000
Medium term borrowing	16.1	-	10,174
Short term borrowings	16.2	20,011	10,014
		20,011	20,188

16.1 During the year, the Group repaid its USD 10.1 million medium term borrowing which carried a profit rate of 7.75% per annum.

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 of 2.5% (2014: 0.50% to 2.50%).

17. OTHER LIABILITIES

	30 June 2015 USD'000	30 June 2014 USD'000
Accounts payable	2,125	3,550
Provisions and accruals	1,386	1,817
Deferred income	1,551	1,348
Board of Directors' remuneration (note 28)	–	428
Other	149	84
	5,211	7,227

18. SHARE CAPITAL

	30 June 2015 USD '000	30 June 2014 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 (2014: 190,000,000 shares of USD 1 each)	190,000	190,000

18. SHARE CAPITAL (Continued)

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. In 2014, the share premium was fully utilised in the capital reduction, refer note 18(d) below.

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 1,406 thousand (2014: USD 1,502 thousand) has been transferred to a statutory reserve. For the year 2014, an additional amount of USD 2,023 thousand was also transferred to statutory reserve in December 2014 as explained in (d) below, bringing the total transfer to statutory reserve for 2014 to USD 3,525 thousand. 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 resolved to transfer an amount of USD 2,023 thousand from the net profits of the period ended 30 June 2014 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 the Group's consolidated financial statements for the year ended 30 June 2014

e) Dividend paid

Following approval of the Bank's shareholders at the Annual General Assembly held on 30 October 2014 and regulatory approval by the CBB, the Group distributed cash dividends of 5% or USD 5 cents per share amounting USD 9,238 thousand.

19. INCOME FROM INVESTMENT BANKING SERVICES

	30 June 2015 USD'000	30 June 2014 USD'000
Investment structuring income	9,954	12,718
Investment management and arrangement fees	3,778	4,213
	13,732	16,931

20. FINANCE INCOME AND EXPENSE

	30 June 2015 USD'000	30 June 2014 USD'000
Finance income Income from placements with financial institutions	212	202
Finance expense Profit on murabaha and wakala borrowings	(664)	(848)
Net finance expense	(452)	(646)

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21. RENTAL AND OTHER INCOME

	30 June 2015 USD'000	30 June 2014 USD'000
Rental and property management income	1,928	1,447
Other income	357	1,827
	2,285	3,274

Other income for 2015 mainly comprises project cost recoveries and write backs of excess accruals no longer required (2014: cost recoveries and a one off USD 1,294 thousand of profit collected on mezzanine funding to a project company which had not been recognized previously due to doubt on project's capacity to pay).

22. FAIR VALUE GAINS / (LOSSES) ON INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS - NET

	30 June 2015 USD'000	30 June 2014 USD'000
Trading securities	(327)	17
Investments designated at fair value through profit or loss - net	2,000	(2,250)
	1,673	(2,233)

23. GAINS FROM SALE OF INVESTMENTS – NET

	30 June 2015 USD'000	30 June 2014 USD'000
Gain on sale of available-for-sale investments – net	7,117	427
Gain on sale of investment designated at fair value through profit or loss	–	273
	7,117	700

24. STAFF COSTS

	30 June 2015 USD'000	30 June 2014 USD'000
Salaries and benefits	6,827	7,366
Social insurance expenses	428	414
Other staff expenses	8	4
	7,263	7,784

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25. IMPAIRMENT PROVISIONS (CHARGED) / RELEASED - NET

	Specific impairment provisions relating to						
30 June 2015	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 year	(28,740)	(5,173)	(10,251)	(18,711)	(2,335)	(2,008)	(67,218)
Charge for the year	(1,900)	-	(470)	(750)	(33)	(550)	(3,703)
Transfers	(400)	-	-	520	(120)	-	-
Impairment provisions charged - net	(2,300)	-	(470)	(230)	(153)	(550)	(3,703)
Recovery during the year	-	-	1,704	3,816	40	-	5,560
Release of provision related to investments derecognized	10,137		-	-	-	-	10,137
Write-offs	-	-	600	-	358	-	958
	7,837	-	1,834	3,586	245	(550)	12,952
Provision at the end of the year	(20,903)	(5,173)	(8,417)	(15,125)	(2,090)	(2,558)	(54,266)

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

	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 - net	(1,000)	-	(550)	(260)	-	1,851	41
Recovery during the year	-	-	-	4,949	-	-	4,949
Write-offs	910	-	-	-	-	-	910
	(90)	-	(550)	4,689	-	1,851	5,900
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).

26. OTHER EXPENSES

	30 June 2015 USD'000	30 June 2014 USD'000
Rent and office expenses	1,682	1,608
Publicity, conferences and promotion	224	149
Board of directors and Shari'a supervisory board	431	466
Other	55	58
	2,392	2,281

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 2015 (30 June 2014: USD nil).

The shareholders have authorised issue of up to 10 million shares (2014: 10 million shares) to the ESOP under this scheme. The Group has incorporated VC Bank ESOP SPC, a special purpose vehicle, to hold the shares for the benefit of the participating employees under the ESOP. The shares issued to the ESOP are treated as treasury shares until they unconditionally vest to the benefit of the employees.

There was no vesting charge nor any writebacks during the current year or during 2014.

Movement in the ESOP units during the year:

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

	30 June 2015		30 June 2014	
	No of units (thousands)	WAPP $	No of units (thousands)	WAPP $
Outstanding at 1 July 2014 / 1 July 2013	5,637	1.088	5,637	1.088
Relating to leavers during the year	-	-	-	-
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 2015, 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.

30 June 2015	Associates and joint venture USD '000	Board members/ key management personnel/ Shari'a 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	-	-	1,295	-	1,295
Placements with financial institutions	-	-	410	-	410
Investments	-	-	43,395	-	43,395
Investments in associates and joint venture	27,816	-	-	-	27,816
Receivables	-	-	4,401	-	4,401
Funding to project companies	4,458	-	3,403	-	7,861
Other assets	25	-	259	-	284
Liabilities					
Employee accruals	-	1,586	-	-	1,586
Other liabilities	-	-		-	-
Income					
Income from investment banking services	316	-	-	-	316
Share of loss of associates and joint venture accounted for using the equity method	(524)	-	-	-	(524)
Other income	-	-	2,033	-	2,033
Realised gain on sale of investment property	-	-	-	-	-
Expenses (excluding compensation for key management personnel)					
Impairment allowances against investments	-	-	-	-	-
Impairment allowances against receivables	750	-	-	-	750
Commitments and contingencies	40	-	-	-	40
Equity of investment account holders	-	-	-	-	-

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28. RELATED PARTY TRANSACTIONS (Continued)

30 June 2014	Associates and joint venture USD '000	Board members/ key management personnel/ Shari'a 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	-	-	-	-	-

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

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

Categories*

	30 June 2015		30 June 2014	
	Number of Shares	Number of Directors	Number of Shares	Number of Directors
Less than 1%	5,492,616	6	9,393,341	7
1% up to less than 5%	30,085,146	6	35,520,848	5

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

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28. RELATED PARTY TRANSACTIONS (Continued)
Details of material contracts involving directors include:

	30 June 2015 USD '000	30 June 2014 USD '000
Directors' participation in investments promoted by the Group	124,646	45,465

Compensation of directors and key management personnel are as follows:

	30 June 2015 USD '000	30 June 2014 USD '000
Board member fees	298	298
Salaries and other short-term benefits	1,731	1,731
	2,029	2,029

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
No board remuneration is proposed for the year 2015. The shareholders, at the Annual General Assembly held on 30 October 2014, approved the payment of Board of Directors' remuneration of USD 428 thousand relating to 2014.

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 2015 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'a Supervisory Board. Zakah payable by the shareholders in respect of each share for the year ended 30 June 2015 is US cents 0.316 for every share held (2014: US cents 0.79 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'A
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. (2014: nil). However, one of the investment projects of the Group in the United Kingdom received interest income of approximately USD 11 thousand on its funds during the year 2015, which was disbursed to charity during the year.

31. SHARI'A SUPERVISORY BOARD
The Group's Shari'a Supervisory Board consists of three Islamic scholars who review the Group's compliance with general Shari'a 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'a principles.

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

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33. MATURITY PROFILE

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

30 June 2015	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	-	2,314	-	-	2,314	-	-	2,314
Placements with financial institutions	-	125	-	285	410	-	-	410
Investments	160,269	-	-	1,000	1,000	1,776	-	163,045
Investments in associates and joint venture	27,816	-	-	-	-	-	-	27,816
Investment property	-	-	-	-	-	-	-	-
Receivables	-	2,680	7,855	2,500	13,035	13,840	470	27,345
Funding to project companies	-	-	-	185	185	13,079	596	13,860
Other assets	173	70	5,397	566	6,033	981	10	7,197
Property and equipment	8,833	-	-	-	-	-	-	8,833
Total assets	197,091	5,189	13,252	4,536	22,977	29,676	1,076	250,820
Islamic financing payables	-	20,011	-	-	20,011	-	-	20,011
Employee accruals	5,131	-	1,000	-	1,000	-	-	6,131
Other liabilities	34	1,673	219	677	2,569	978	1,630	5,211
Total liabilities	5,165	21,684	1,219	677	23,580	978	1,630	31,353
Net liquidity gap	191,926	(16,495)	12,033	3,859	(603)	28,698	(554)	219,467
Cumulative liquidity gap	191,926	175,431	187,464	191,323	554,218	220,021	219,467	-

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	-	10,014	-	-	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	216,018
Cumulative liquidity gap	177,762	182,382	196,025	202,602	581,009	214,002	216,018	-

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

(a) Industry sector

30 June 2015	Trading and Manufacturing USD '000	Banks and financial Institutions USD '000	Real estate USD '000	Oil and Gas USD '000	Health care USD '000	Technology USD '000	Shipping USD '000	Other USD '000	Total USD '000
Assets									
Balances with banks	-	2,314	-	-	-	-	-	-	2,314
Placements with financial institutions	-	410	-	-	-	-	-	-	410
Investments	29,415	16,650	27,531	10,797	14,080	1,847	13,529	49,196	163,045
Investment in associates and joint venture accounted under the equity method	-	-	24,706	-	578	-	-	2,532	27,816
Investment property	-	-	-	-	-	-	-	-	-
Receivables	933	-	6,775	1,679	-	396	1,685	15,877	27,345
Funding to project companies	8,373	-	845	185	3,861	596	-	-	13,860
Other assets	306	39	116	72	4	134	3,636	2,890	7,197
Property and equipment	-	-	8,131	-	-	-	-	702	8,833
Total assets	39,027	19,413	68,104	12,733	18,523	2,973	18,850	71,197	250,820
Liabilities									
Islamic financing payable	-	20,011	-	-	-	-	-	-	20,011
Employee accruals	-	-	-	-	-	-	-	6,131	6,131
Other liabilities	-	-	-	-	-	-	-	5,211	5,211
Total liabilities	-	20,011	-	-	-	-	-	11,342	31,353
Commitments and contingencies	14,204	10,000	22,158	-	-	-	-	-	46,362
Equity of investment account holders	-	3,099	-	-	-	-		733	3,832

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	Technology 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	10,328	39,837	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	17,715	55,814	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)

(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 ended:

30 June 2015	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	2,314	-	-	-	-	2,314
Placement with financial institutions	410	-	-	-	-	410
Investments	83,464	62,078	3,974	-	13,529	163,045
Investment in associates and joint venture accounted under the equity method	26,704	1,112	-	-	-	27,816
Investment property	-	-	-	-	-	-
Receivables	15,823	8,983	855	-	1,684	27,345
Funding to project companies	4,707	8,557	-	596	-	13,860
Other assets	2,908	490	46	-	3,753	7,197
Property and equipment	8,833	-	-	-	-	8,833
Total assets	**145,163**	**81,220**	**4,875**	**596**	**18,966**	**250,820**
Liabilities						
Islamic financing payable	20,011	-	-	-	-	20,011
Employee accruals	6,131	-	-	-	-	6,131
Other liabilities	5,211	-	-	-	-	5,211
Total liabilities	**31,353**	**-**	**-**	**-**	**-**	**31,353**
Commitments and contingencies	**32,158**	**14,204**	**-**	**-**	**-**	**46,362**
Equity of investment account holders	**3,833**	**-**	**-**	**-**	**-**	**3,833**

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

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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 2015, the Group had fiduciary assets under management of USD 1,023 million (30 June 2014: USD 993 million).

36. COMMITMENTS AND CONTINGENCIES

The Group has issued financial guarantees totalling USD 36.32 million (30 June 2014: USD 34.73 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 0.04 million (30 June 2014: USD 0.96 million) and commitments to invest of USD 10 million (30 June 2014: 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 2015. The Group does not hold collateral against any of its exposures as at 30 June 2015 (30 June 2014: 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 nil (2014: provided USD 1.8 million) of collective impairment provisions against its receivable exposure during the period.

37. RISK MANAGEMENT AND CAPITAL ADEQUACY (Continued)

a) Credit risk (Continued)

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

	30 June 2015 USD '000	30 June 2014 USD '000
Receivables	23,579	22,200
Funding to project companies	31,358	34,802
Other assets	2,443	7,813
Total	57,380	64,815

(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 2015, the total credit exposure to individual counterparties which comprised 10% or more of the Group's equity was USD 53.97 million relating to one counterparty (30 June 2014: USD 43.03 million relating to one counterparty).

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

	Gross undiscounted cash flows					
30 June 2015	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	20,042	-	-	-	-	20,042
Employee accruals	5,131	1,000	-	-	-	6,131
Other liabilities	1,707	219	677	978	1,630	5,211
Total financial liabilities	26,880	1,219	677	978	1,630	31,384
Commitments and contingencies	24,204	22,158	-	-	-	46,362
Equity of investment account holders	27	-	-	3,806	-	3,833

37. RISK MANAGEMENT AND CAPITAL ADEQUACY (Continued)

(c) Liquidity risk (Continued)

	Gross undiscounted cash flows					
30 June 2014	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

(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 2015	30 June 2014
Placements with financial institutions	1.95%	1.07%
Islamic financing payables	2.50%	2.16%

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 2015 USD '000	30 June 2014 USD '000
100 bps parallel increase / (decrease)		
Placements with financial institutions	± 4	± 94
Funding to project companies	± 139	± 141
Islamic financing payables	± 200	± 202

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.

37. RISK MANAGEMENT AND CAPITAL ADEQUACY (Continued)

(d) Market risk (Continued)

(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, Great Britain Pounds, Euros and Turkish Lira. 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 2015 USD '000	30 June 2014 USD '000
Kuwaiti Dinars	2,695	3,293
Great Britain Pounds	4,875	6,058
Euro	-	11
Turkish Lira	26,089	19,167

The table below indicates the currencies to which the Group had significant exposure at 30 June 2015 and 30 June 2014 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 2015		30 June 2014	
	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%	269	-	76	253
Great Britain Pounds	+10%	488	-	230	133
Euro	+10%	-	-	1	-
Turkish Lira	+10%	2,609	-	1,917	-
Kuwaiti Dinars	-10%	(269)	-	(329)	-
Great Britain Pounds	-10%	(488)	-	(363)	-
Euro	-10%	-	-	(1)	-
Turkish Lira	-10%	(2,609)	-	(1,917)	-

(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

37. RISK MANAGEMENT AND CAPITAL ADEQUACY (Continued)

(d) Market risk (Continued)

(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 2015		30 June 2014	
		Effect on profit USD '000	Effect on equity USD '000	Effect on profit USD '000	Effect on equity USD '000
Trading securities	+1%	28	-	9	-
Available-for-sale	+1%	-	15	-	25
Trading securities	-1%	(28)	-	(9)	-
Available-for-sale	-1%	-	(15)	-	(25)

(e) Operational risk

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

(f) Investment property price risk

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

(g) Capital management

The Bank's regulator, the Central Bank of Bahrain (the CBB) sets and monitors capital requirements for the Group as a whole. The Group is required to comply with the provisions of the Capital Adequacy Module of the CBB (based on the Basel III and the Islamic Financial Services Board "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 2015 USD '000	30 June 2014 USD '000
Total risk weighted assets	834,230	770,344
CET1 capital	213,702	320,215
Additional Tier 1	91,344	-
Tier 2 capital	2,558	17,135
Total regulatory capital	307,604	337,350
Total regulatory capital expressed as a percentage of total risk weighted assets	36.87%	43.79%
Minimum requirement	12.5%	12%

Tier 1 capital comprises share capital, share premium, statutory reserve and retained earnings, and minority interest in consolidated subsidiaries less gross unrealised loss arising from fair valuing equities.

Tier 2 capital comprises general financing loss provisions. 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 year.

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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.

30 June 2015	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Held for trading	2,816	-	-	2,816
Fair value through profit or loss	-	-	106,112	106,112
Available-for-sale	1,472	-	-	1,472
	4,288	-	106,112	110,400

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

The following table shows a reconciliation of the opening and closing amount of Level3 financial assets which are recorded at fair value.

	30 June 2015 USD '000	30 June 2014 USD '000
At 1 July	92,760	84,466
Fair value gains (losses) recognised in the consolidated statement of income - net	2,000	(2,250)
Investments acquired during the year - net	11,352	10,544
At 30 June	106,112	92,760

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 % – 15 % 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 854 thousand, whereas a 1% decrease in the discount rate would increase the fair values by approximately USD 1,298 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 2,941 thousand or reduce the fair values by approximately USD 2,941 thousand respectively.

Investment amounting USD 52,645 thousand are carried at cost less impairment provision of which the carrying value approximates their fair value as at 30 June 2015.

39. SUBSEQUENT EVENTS

Subsequent to the balance sheet date, VC Bank extended a letter of undertaking to the creditor of an investee in the shipping sector to facilitate negotiations for the refinancing of its outstanding bank financing liabilities of approximately USD 34 million

BASEL II PILLAR 3 DISCLOSURES

Contents

BASEL II PILLAR 3 DISCLOSURES

FOR THE YEAR ENDED 30 JUNE 2015

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 2015.

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 2015, the Bank's total risk weighted assets amounted to US$ 834 million; Common Equity, Tier 1 Capital and total regulatory capital amounted to US$ 214 million, US$ 305 million and US$ 308 million respectively. Accordingly, Common Equity Ratio, Tier 1 Capital Adequacy Ratio and total Capital Adequacy Ratio was 26%, 37% and 37% respectively, which exceeds the minimum capital requirement of the CBB of 12.5%.

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% plus reduction of ESOP shares allocation by approximately 56% to US$ 10 million. The changes have been approved by the shareholders in an extraordinary general meeting held on 9 December 2013, and also by the regulators.

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	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 significant net losses for 2010 and 2011. However, the Bank has witnessed a major turnaround during the current period, registering net profits of US$ 21.1 million for the 18 month period ended 30 June 2013, and of US$ 14.59 million and US$ 14.06 million for the years ended 30 June 2014 and 2015 respectively.

Particulars	June 2015	June 2014	December 2013 (Half year)	June 2013 (18 mths)	December 2012	December 2011	December 2010
Net profit (US$ m)	14.06	14.59	4.29	21.15	18.51	(58.67)	(47.60)
ROC (return on paid up capital)	7.8%	8.1%	4.8%	5.5%	7.2%	-22.9%	-18.6%
Head count	49	45	46	45	42	66	76
Total investments / total assets	76%	70%	67%	75%	76%	76%	71%
Leverage (total liabilities / total equity)	14.3%	15%	20%	11%	6%	10%	4%
Retained earnings / paid up capital	19%	17%	14%	-22%	-23%	-30%	-7%

BASEL II PILLAR 3 DISCLOSURES
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2. Capital Structure (continued)

2.3 Review of financial performance: (continued)

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.

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 III guidelines issued by the Basel Committee on Banking Supervision's International Convergence of Capital Measurement and Capital Standards.

2.6 Effective January 2015, the CBB has required all Bahrain banking institutions to implement the Basel III guidelines for the maintenance of minimum level of capital calculated for three major components of risk exposures i.e. credit risk (including investment risks), operational risk and market risk, plus minimum leverage and liquidity coverage ratios.

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 three elements:

a. Common Equity 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. Additional Tier 1 Capital, which consists of the qualifying portion of minority interests in consolidated entities given recognition.

c. Tier 2 Capital, which consists of the qualifying portion of subordinated loans (nil in VCB's case) and general loss provisions. 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 2015, the Bank continued the development and enhancement of its risk management and internal capital adequacy assessment framework.

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2. Capital Structure (continued)

Capital Adequacy (continued)

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 2015

CAPITAL COMPONENTS - CONSOLIDATED			USD '000
	CET 1	AT1	T2
Tier 1 Capital			
Common Equity Tier 1 (CET1)			
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	12,710		
Current interim cumulative net income / losses	14,059		
Accumulated other comprehensive income and losses (and other reserves)	(175)		
Total CET1 capital before minority interest	210,119		
Minority interest in consolidated financial entities given recognition in CET1	3,583		
Total Common Equity Tier 1 capital	213,702		
Other Capital (AT1 & T 2)			
Minority interest in consolidated financial entities given recognition in AT1		91,344	-
General financing loss provisions		-	2,558
Total Available AT1 & T2 Capital		91,344	2,558
Net Available Capital	213,702	91,344	2,558
Total Tier 1		305,046	
Total Available Capital			307,604

Reconciliation with audited financial statements:	
Shareholder's equity per audited financial satements	219,467
Less: Fair value gains	(9,348)
Add: General provisions	2,558
Minority interests	94,927
Total available capital for regulatory purposes	307,604

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2. Capital Structure (continued)

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	14,903	2,982	358
Exposures to corporates	43,231	43,231	5,188
Investments in listed equities in banking book	4,292	4,292	515
Investments in unlisted equities in banking book	182,059	331,702	39,804
Investments in real estate	90,362	180,724	21,687
Premises occupied by the bank	8,677	8,677	1,041
Other exposures	127,891	127,891	15,347
Total credit risk exposure under standardized approach	471,415	699,499	83,939
Market risk:			
Trading equities position	2,816	5,633	676
Foreign exchange position	73,851	73,851	8,862
Total market risk under standardized approach	76,667	79,484	9,538
Operational risk under Basic Indicator Approach (ref. below)		55,248	6,630
Total		834,231	100,107
Total eligible capital - (Tier 1 + Tier 2)		307,604	
Total eligible capital - Tier 1		305,046	
Common Equity Tier 1		213,702	
Total Capital Adequacy Ratio (Tier 1 + Tier 2)		36.87%	
Tier 1 Capital Adequacy Ratio		36.57%	
Common Equity Tier 1 Ratio		25.62%	

Capital requirement for Operational Risk (Basic Indicator Approach)	2015	2014	2013*
Gross income for prior three years	30,359	30,578	27,460
Average of past 3 years gross income (excl. loss years)	29,466		
Capital requirement for Operational Risk (15%)	4,420		
Risk weighted exposure for Operational Risk	55,248		

* annualized

	USD '000
Total unrealized fair value gains / (losses):	Year ended 30 Jun 2015
Unrealized fair value (losses)/ gains recognized in income	1,673
Unrealized fair value gains/(losses) recognized in equity during the year	(1,057)
Unrealized fair value gains/(losses) recognized in equity at the end of the year	-
Cumulative realised gains arising from sales during the year	1,347

2. Capital Structure (continued)

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 2015	31 Mar 2015	31 Dec 2014	30 Sep 2014	30 Jun 2014	31 Mar 2014	31 Dec 2013	30 Sep 2013	Max	Min
Market risk exposures										
Listed equities held for trading	2,816	3,008	1,104	907	897	880	115	100	3,008	100
Foreign currency exposure*	73,851	77,233	72,894	79,897	76,013	65,256	78,887	83,493	83,493	65,256
Market risk charge										
Listed equities held for trading	451	481	177	145	143	141	18	16	481	16
Foreign currency exposure	5,908	6,179	5,832	6,392	6,081	5,220	6,311	6,679	6,679	5,220
Total market risk charge	6,359	6,660	6,008	6,537	6,225	5,361	6,329	6,695	7,161	5,236
Market risk weighted exposure										
Listed equities held for trading	5,633	6,017	2,207	1,813	1,793	1,761	230	199	6,017	199
Foreign currency exposure	73,851	77,233	72,894	79,897	76,013	65,256	78,887	83,493	83,493	65,256
Total market risk weighted exposure	**79,484**	**83,250**	**75,101**	**81,710**	**77,807**	**67,017**	**79,116**	**83,693**	**83,693**	**67,017**

* 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 2015, 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	2,682	2,682
Profit free funding to projects	13,736	17,139
Total Islamic Financing Contracts	**16,418**	**19,821**

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
   viii. Procedures for the identification and quantification of risks
   ix. 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.

3. Risk Management (Continued)

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 2015, the total collective impairment provision stood at US$ 2.56 million.

3.8 The Bank uses the Standardized Approach 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 VC Bank Building, a prime commercial property in the Diplomatic Area of the Kingdom of Bahrain.

Off-Balance Sheet Items

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

a. Contingent exposure of US$ 36.32 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$ 10.04 million
c. Restricted investment accounts of US$ 3.83 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 2015

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

Geographic sector	GCC countries	Other MENA countries	Europe	Cayman / Americas	Global	Total
Assets						
Balances with banks	2,314	-	-	-	-	2,314
Placement with financial institutions	410	-	-	-	-	410
Investments	83,465	62,078	3,974	-	13,528	163,045
Investment in associates and accounted under the equity method	26,704	1,112	-	-	-	27,816
Investment property receivables	15,823	8,983	855	-	1,684	27,345
Funding to project companies	4,707	8,557	-	596	-	13,860
Other assets	2,908	491	46	-	3,752	7,197
Property and equipment	8,833	-	-	-	-	8,833
Total Assets	145,164	81,221	4,875	596	18,964	250,820
Off statement of financial position items						
Equity of investment account holders	3,833	-	-	-	-	3,833
Commitments and contingencies	32,158	14,204	-	-	-	46,362
	181,155	95,425	4,875	596	18,964	301,015

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

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)

b. Table 6: Distribution of the Bank's exposures by Industry Sector as at 30 June 2015

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

Industry sector	Trading & manufacturing	Banks & financial Inst.	Real estate related	Oil and Gas	Health Care	Technology	Shipping	Others	Total
Assets									
Balances with banks	-	2,314	-	-	-	-	-	-	2,314
Placements with financial institutions	-	410	-	-	-	-	-	-	410
Investments	29,415	16,650	27,531	10,797	14,080	1,847	13,529	49,196	163,045
Investment in associates and joint ventures	-	-	24,706	-	578	-	-	2,532	27,816
Receivables	933	-	6,775	1,679	-	396	1,685	15,877	27,345
Funding to project companies	8,373	-	845	185	3,861	596	-	-	13,860
Other assets	306	39	116	72	4	134	3,636	2,890	7,197
Property and equipment	-	-	8,131	-	-	-	-	702	8,833
Total Assets	**39,027**	**19,413**	**68,104**	**12,733**	**18,523**	**2,973**	**18,850**	**71,197**	**250,820**
Off statement of financial position items									
Equity of investment account holders	-	3,099	-	-	-	-	-	734	3,833
Commitments and contingencies	14,204	10,000	22,158	-	-	-	-	-	46,362
	53,231	**32,512**	**90,262**	**12,733**	**18,523**	**2,973**	**18,850**	**71,931**	**301,015**

c. Table 7: Exposures by maturity as at 30 June 2015

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	-	2,314	-	-	2,314	-	-	2,314
Placements with financial institutions	-	125	-	285	410	-	-	410
Investments	160,269	-	-	1,000	1,000	1,776	-	163,045
Investment in associates and joint ventures	27,816	-	-	-	-	-	-	27,816
Receivable from investment banking services	-	2,680	7,855	2,500	13,035	13,840	470	27,345
Funding to project companies	-	-	-	185	185	13,079	596	13,860
Other assets	173	69	5,397	566	6,032	982	10	7,197
Property and equipment	8,833	-	-	-	-	-	-	8,833
Total assets	**197,091**	**5,188**	**13,252**	**4,536**	**22,976**	**29,677**	**1,076**	**250,820**
Off statement of financial position items								
Equity of investment account holders	2	24	-	-	24	3,807	-	3,833
Commitments and contingencies	46,322	-	-	40	40	-	-	46,362
	243,415	**5,212**	**13,252**	**4,576**	**23,040**	**33,484**	**1,076**	**301,015**

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

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)

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 2015

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	-	-	1,295	1,295
Placements with financial institutions	-	-	410	410
Investments	-	-	43,395	43,395
Investments in associates and joint venture	27,816	-	-	27,816
Receivables	-	-	4,401	4,401
Funding to project companies	4,458	-	3,403	7,861
Other assets	25	-	259	284
Liabilities				
Employee accruals	-	1,586	-	1,586
Other liabilities	-	-	-	-
Income				
Income from investment banking services	316	-	-	316
Share of loss of associates and joint venture accounted for using the equity method	(524)	-	-	(524)
Other income	-	-	2,033	2,033
Realised gain on sale of investment property	-	-	-	-
Expenses (excluding compensation for key management personnel)				
Impairment allowances against investments	-	-	-	-
Impairment allowances against receivables	750	-	-	750
Commitments and contingencies	40	-	-	40

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.

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 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.

3. Risk Management (Continued)

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 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 co-operation 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 Jun 2015	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	12 months ended Dec 2008
Private Equity investments -fair value (losses) / gains	2,000	(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 investment -fair value (losses) / gains	(327)	17	(15)	(20)	(131)	(58)	360	3,774
Total unrealized fair value (loss) / gain	**1,673**	**(2,233)**	**(7,315)**	**(2,020)**	**(15,414)**	**(15,158)**	**3,440**	**13,574**

BASEL II PILLAR 3 DISCLOSURES
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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 $ 20 m. 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 year. Its liquidity ratio (cash and cash equivalents plus marketable securities to total liabilities) stood at 26% as at 30 June 2015

Table 10: Liquidity Ratio as at 30 June 2015

	USD '000
Cash at bank	2,314
Placements at bank	410
Marketable trading securities	2,816
Marketable available-for-sale securities	1,472
Short term liquidity certificates	1,000
Total liquid assets	**8,012**
Total liabilities	**31,353**
Of which, due in up to 1 year	20,011
Non current, due after 1 year or more	11,342
Liquid assets / total liabilities	**26%**
Liquid assets / current liabilities (due within 1 year)	**40%**

BASEL II PILLAR 3 DISCLOSURES
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3. Risk Management (Continued)

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 2015 Repricing period	Rate sensitive assets	Rate sensitive liabilities	Gap	Cumulative Gap	Impact of 200 bp change
1 day	-	-	-	-	-
> 1 day to 3 months	125	20,011	(19,886)	(19,886)	(99)
> 3 months to 6 months	-	-	-	(19,886)	-
> 6 months to 12 months	1,285	-	1,285	(18,601)	26
> 1 year to 5 years	2,104	-	2,104	(16,497)	210
> 5 years	-	-	-	(16,497)	-
Total	3,514	20,011			
As % of total balance sheet	1%	8%			

3.35 The impact on net income of a benchmark change of 200 basis points in profit rates, is as follows:

a. The Bank's net profit margin income for the repricing period of 1 day to 3 months would potentially decrease by US$ 99 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$ 26 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 increase by US$ 210 thousand if the profit margin rate increases by 200 basis points.

3. Risk Management (Continued)

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$ 3.8 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.

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

	12 months ended Jun 2015	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
GCC Pre IPO Fund						
Net profit/(loss)	(152)	-	34	-	71	(1,406)
Total assets	3,833	3,879	3,740	3,678	3,681	3,878
Total equity	3,833	3,879	3,740	3,678	3,681	3,878
Return on assets (ROA)	-4%	0%	1%	0%	2%	-36%
Return on equity (ROE)	-4%	0%	1%	0%	2%	-36%
VC Bank Investment Projects Mudarabah						
Net Profit	N/A	N/A	N/A	N/A	886	887
Total assets	N/A	N/A	N/A	N/A	14,105	13,219
Total equity	N/A	N/A	N/A	N/A	13,165	12,341
Return on assets (ROA)	N/A	N/A	N/A	N/A	6%	7%
Return on equity (ROE)	N/A	N/A	N/A	N/A	7%	7%

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).

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 2015		Cumulative impairment provision as of 30 June 2015		
Particulars	Gross exposure	Specific	Collective	Specific	Collective	Net carrying value
Investments	41,716	1,900	-	20,904	-	20,812
Investments in associates and joint venture	5,173	-	-	5,173	-	-
Receivable from investment banking services	23,579	470	-	8,417	-	15,162
Funding to project companies	31,358	750	550	15,125	2,558	13,675
Other assets	2,443	33	-	2,090	-	353
Total	104,269	3,153	550	51,709	2,558	50,002

Table 14: Impairment provisions - by industrial sector

USD '000

		Impairment booked during the year ended 30 June 2015		Cumulative impairment provision as of 30 June 2015		
Particulars	Gross exposure	Specific	Collective	Specific	Collective	Net carrying value
Real estate	47,150	1,933	550	27,943	2,558	16,650
Health care	5,161	-	-	1,300	-	3,861
Technology	15,462	750	-	14,865	-	596
Oil and gas	18	-	-	18	-	-
Transportation	10,774	130	-	1,255	-	9,518
Others	25,705	340	-	6,329	-	19,377
Total	104,269	3,153	550	51,709	2,558	50,002

5. 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 2015. The following tables give details of distribution of shares by nationality, ownership of shares by directors etc.

5.1 Table 15: Distribution of shareholders by nationality:

Country	Ownership %
United Arab Emirates	3.09%
Kuwait	22.18%
Kingdom of Saudi Arabia	54.47%
Qatar	4.48%
Oman	2.41%
Kingdom of Bahrain	13.37%
Total	**100.0%**

5.2 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; and
- VC Bank ESOP SPC – 6.13% ownership, but unvested.
- Securities Group (K.S.C.C.) – 5.65% ownership.

5.3 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.

5.4 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.