VENTURE CAPITAL BANK

GLOBAL EXPANSION

Annual Report 2015 - 2016

Annual Report 2015 - 2016

التقرير السنوي ٢٠١٥ - ٢٠١٦

بسم الله الرحمن الرحيم

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Licensed as an Islamic Wholesale Bank by the Central Bank of Bahrain

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CORPORATE OVERVIEW

PROFILE

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 on venture capital and business development, private equity, and real estate investment opportunities.

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 DOLLARS

Despite continued challenging economic and market conditions in FY 2016, VCBank posted another strong financial performance.

NET PROFIT
9.3M
30 June 2016
14.1M 30 June 2015

TOTAL REVENUE
36.6M
30 June 2016
16.5M 30 June 2015

TOTAL ASSETS
334.3M
30 June 2016
250.8M 30 June 2015

SHAREHOLDERS' EQUITY
224.3M
30 June 2016
219.5M 30 June 2015

TOTAL ASSETS UNDER MANAGEMENT
1.492B
30 June 2016
1.274B 30 June 2015

CAPITAL ADEQUACY RATIO
19.8%
30 June 2016
36.9% 30 June 2015

OPERATIONAL HIGHLIGHTS

NEW INVESTMENTS

Mado Group, Turkey
Acquired 49 per cent stake in leading ice cream and café / patisserie chain franchisor

Bridgewater and Preston Creek, Atlanta, USA

Acquired a real estate portfolio consisting of 2 residential assets - Bridgewater and Preston Creek – in Atlanta, Georgia, USA

WestHaven at Vinings, Atlanta, USA

Acquired a real estate portfolio in the WestHaven at Vinings property in Atlanta, Georgia, USA

Liquidity Programme 3

Backed by asset of third building of Jebel Ali Labour Accommodation complex

INVESTMENT EXITS

Byrne Investment Limited

This private equity investment exit provided investors with around 45 per cent return

Jebel Ali Labour Accommodation

Completed full exit of this investment with successful leasing of third building

INVESTOR RELATIONS

Customised the client relationship management (CRM) system in line with specific requirements of clients

GOVERNANCE

Implemented new variable remuneration framework in compliance with CBB rules

HUMAN CAPITAL

- Continued to recruit additional professionals for key business and support functions
- Introduced a programme to implement the Bank's succession plan.

INFORMATION TECHNOLOGY

- Commissioned new disaster recovery site
- Conducted gap analysis for cyber security

CORPORATE SOCIAL RESPONSIBILITY

- Continued to contribute to the economic development and social well-being of the Kingdom of Bahrain, and the continued growth of the Islamic banking sector

CHAIRMAN'S STATEMENT

ABDULFATAH MOHAMMED RAFIE MARAFIE
Elected Chairman in 2016
State of Kuwait

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 2016, upon taking over as Chairman subsequent to the year-end following the resignation of Dr. Ghassan Al Sulaiman during August 2016, due to his appointment to a government position in Saudi Arabia as Governor of the General Authority of Small and Medium Enterprises. It has been a distinct honour to have worked closely alongside Dr. Ghassan since the Bank's inception, and I wish him every success in his new position. I am honoured to have been elected the new Chairman, and pledge my best efforts to guiding and sustaining the development of VCBank.

I am pleased to report that, with the grace of God, we maintained the Bank's recent trend of profitability, and continued to grow our investment activities. Significantly, this was achieved against another challenging period of intense economic volatility and market uncertainty.

VCBank posted another strong financial performance in FY 2016. Total revenue more than doubled to USD 36.6 million compared with USD 16.5 million the previous year; while total expenses were USD 16.2 million versus USD 12.6 million for FY 2015. Net income from investment banking activities was the largest contributor to this growth at USD 31.1 million compared with USD 13.7 million a year earlier. The Bank posted a net profit in FY 2016 of USD 9.3 million compared with USD 14.1 million for the previous year, equating to a return on net paid-up capital of 4.9 per cent. It should be noted that these results were after recognising fair value losses and impairment provisions of USD 20.5 million, which were booked as a prudent measure in light of prevailing market conditions.

The Bank continued to maintain a strong capital base, with total balance sheet assets of USD 334.3 million as at 30 June 2016 compared with USD 250.8 million at the end of the previous year. At the end of FY 2016, shareholders' equity stood at USD 224.3 million versus USD 219.5 million at the end of FY 2015. VCBank's capital adequacy ratio was 19.8 per cent, higher than the 12.5 per cent minimum requirement of the Central Bank of Bahrain. Total assets under management increased to USD 1.492 billion as at 30 June 2016 compared with USD 1.274 billion at the end of the previous year.

These financial results reflect the success of our business activities during the year, during which we concluded four new investment transactions, including initial forays into the US multifamily housing sector and the Turkish café / patisserie market. We expanded within the regional and global markets, and have further strengthened and diversified our investment portfolio, by offering clients innovative and attractive investment opportunities. In addition, we concluded two investment exits, including VCBank's first full private equity exit. At the same time, we made sound progress with several of our key existing investments. The Bank has developed a strong pipeline of potential deals and exits, which we hope, God willing, to conclude during fiscal year 2017.

In February 2016, the Board of Directors and the Executive Management team met to review and realign the Bank's strategy and business model in light of ever-changing economic and market conditions. The primary focus will be on private equity, followed by recurring income-yielding real estate investments, with a selective and prudent approach to venture capital and business development opportunities. Our strategy is underpinned by adoption of the highest standards of corporate governance, risk management and Shari'ah compliance, and an enduring commitment to corporate social responsibility.

VCBank continues to rank among the most active investment banks in the region, with a strong pipeline of deals and proposed exits. Such encouraging progress could not have been achieved without the continued loyalty of our shareholders and clients, along with the strategic guidance of our Board of Directors and Executive Management, together with the professionalism of our investment and wealth management teams, and the dedication of our corporate support functions.

There were a number of changes to the composition of the Board of Directors during the year. I would like to thank the Members who resigned for their valuable commitment and contribution to the Bank during their respective terms of office. In turn, I welcome the new Members, who bring with them a wealth of regional business experience and expertise that will be of great benefit to the Board, and will help in improving the performance of VCBank in the coming years.

Looking ahead, fiscal year 2017 will be another highly-challenging year, marked by continued oil price and market volatility; further economic and fiscal reforms by MENA governments to diversify revenues; and continued geo-political turmoil in certain parts of the region. However, based on our strong financial and business performance in FY 2016, we have a cautiously optimistic outlook for VCBank in the immediate future. As we prepare to enter our second decade of operations, the Board has full confidence in its ability, experience and competence through full and continuous cooperation with the Executive Management and Management team to respond proactively to the challenges of a new regional economic reality.

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 ongoing 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.

Abdulfatah Mohammed Rafie Marafie
Chairman of the Board

BOARD OF DIRECTORS

DR. GHASSAN AHMED ALSULAIMAN
Resigned as Chairman in 2016
Kingdom of Saudi Arabia

ABDULFATAH MOHAMMED RAFIE MARAFIE
Elected Chairman in 2016
State of Kuwait

MOHAMMED ABDULAZIZ ALSARHAN
Deputy Chairman
Kingdom of Saudi Arabia

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

ADWAN MOHAMMAD ALADWANI
Board Member
State of Kuwait

KHALID ABDULAZIZ AL MEDIHEEM
Board Member
Kingdom of Saudi Arabia

MOHAMMED ABDULRAZZAQ ALKANDARI
Board Member
State of Kuwait

DR. MOHAMMED AHMED JUMAAN
Board Member
Kingdom of Bahrain

SULAIMAN ABDULRAHMAN AL RASHID
Board Member
Kingdom of Saudi Arabia

MOHAMMED SALEH AL ATHEL
Board Member
Kingdom of Saudi Arabia

SHARI'AH SUPERVISORY BOARD

Shaikh Dr. Nidham Mohammed Saleh Yaqooby

Chairman

Shaikh Dr. 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.

Shaikh Dr. Abdul Sattar Abdul Kareem Abu Ghuddah

Member

Shaikh 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.

Shaikh Dr. Essa Zaki Essa

Member

Shaikh 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

CEO'S STATEMENT

ABDULLATIF MOHAMED JANAHI
Board Member & Chief Executive Officer
Kingdom of Bahrain

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

In a year which proved to be even more challenging than anticipated – marked by a further dramatic drop in oil prices, a major sell-off across GCC markets and heightened geo-political tensions in the region – I am pleased to report that VCBank posted a strong operational performance, highlighted by continued profitability and business growth.

In particular, income from investment banking activities grew substantially to USD 31.1 million from USD 13.7 million in FY 2015, reflecting a particularly busy and successful year in terms of investment transactions. VCBank structured, offered and placed four new investments in FY 2016 with a total capital raising of approximately USD 200 million from investors.

First, in the USA, we entered the multifamily sector through the acquisition of two major portfolios in Atlanta, Georgia. These comprise approximately 1,500 units in three high-quality gated communities in prime locations. Secondly, and constituting our highest-profile private equity acquisition to date, VCBank acquired 49 per cent of the Mado Group, which is the leading ice-cream brand and the largest café / patisserie chain franchisor in Turkey, with a growing international footprint across Europe and the Middle East. Additionally, VCBank also launched its third liquidity programme, with its shares backed by the prime asset of the third building of the Jebel Ali Labour Accommodation complex, which has been fully leased to a reputable tenant, marking the complete exit of this investment.

Also, in a notable developement, VCBank exited its USD 39.2 million investment in Byrne Investment Limited (BIL) during FY 2016, providing investors with a return of around 45 per cent since the acquisition of the investment in 2014. Following a detailed review of the Bank's portfolio companies, we have also identified a number of potential exits, which we are actively pursuing to generate cash inflows for investors and shareholders over the next two to three years.

Regarding VCBank's existing investments, key highlights include the iconic redevelopment of Park Crescent West in London, which is progressing according to the masterplan; and completion of the construction and fitting-out for the landmark Royal Maternity Hospital in Bahrain, which is scheduled to open in the first quarter of 2017. In addition, Delta Company Limited, a Saudi-based specialised contracting company; and Qatar Engineering & Construction Company (QCon), a leading EPC contractor; continued to perform strongly, winning new contracts and posting increased revenues.

During the year, the Board and Management took part in a strategic workshop to review and realign the Bank's strategy and business model in light of prevailing economic and market conditions. The primary focus will continue to be on private equity, covering the food and beverage, retail, healthcare and education sectors. Real estate investment will concentrate on residential project developments in the GCC and UK, and income-yielding properties in the USA. The Bank will also consider venture capital and business development opportunities on a very selective basis. The review also reconfirmed the on-going emphasis on implementing the Bank's exit strategy, which is managed by the Post-Acquisition Team and overseen by the Investments Exit Committee.

Our 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, which will enable the Bank to better withstand increasing market volatility.

To support our future planned growth and development, we further strengthened the Bank's institutional capability during FY 2016. On-going investment in our human capital framework and information technology infrastructure included a renewed focus on information security; and the recruitment of additional professionals for key business divisions and critical corporate functions.

Looking ahead, we can expect continued volatility in oil prices, stock markets and asset values; additional economic and fiscal reforms by regional governments to reduce subsidies and diversity revenue streams away from hydrocarbons; and heightened geo-political turmoil across parts of the MENA region. In addition, Brexit has created widespread concerns about the future of the UK, Europe and the global economy. Fiscal 2017, therefore, looks set to be another highly testing and challenging year, with investors taking an even more cautious and risk-averse approach to new investment opportunities.

God willing, we will continue to build upon our strong performance in FY 2016 and recent years, in order to adapt to the many changes and new challenges in the marketplace, and capitalise on emerging business opportunities. I would like to stress that VCBank is well-capitalised, with a strong and diversified asset base, and an active pipeline of investment deals and potential exits. As such, we maintain our optimistic outlook for the future prospects of the Bank; and remain confident in our team's ability to achieve improved revenue growth and sustainable profitability in line with our ambitious business targets.

In conclusion, I express my sincere gratitude for the unwavering support and encouragement that we continue to receive from our Board of Directors. In particular, I would like to pay tribute to our former Chairman Dr. Ghassan Al Sulaiman who resigned in August 2016 due to his ministerial appointment as Governor of the General Authority of Small and Medium Enterprises in Saudi Arabia. Words are not sufficient to express our admiration, appreciation and respect for his charismatic and inspiring leadership which has guided the Bank through its first ten years. Personally, it has been a distinct honour and privilege to have served with him since the inception of VCBank. I look forward to working with our new Chairman Mr. Abdulfatah Marafie, with whom I have also enjoyed a close working relationship over the past 10 years.

I also gratefully acknowledge the enduring trust and confidence of our highly-supportive investors, who play a critical role in the on-going success of VCBank. Special thanks are 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 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

Mohamed Jassim Al Shaikh
Executive Director
Head of Wealth Management

Sohail Malik
Executive Director
Head of Post-Acquisition, Investments

Jehad Hasan Qamber
Director
Head of Human Resources & Support

Asya Hasan
Director
Head of Internal Audit

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

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. PROFILES OF EXECUTIVE MANAGERS ARE LISTED IN THE CORPORATE GOVERNANCE REVIEW.

INVESTMENT REVIEW

INVESTMENT STRATEGY

In February 2016, the Board of Directors and the Executive Management Team met to review and realign the Bank's investment strategy in light of prevailing global and regional economic and market conditions. The primary focus will be on private equity, covering the food and beverage, retail, healthcare and education sectors. Real estate investment will continue, albeit to a lesser extent, focused on residential project developments in the GCC and UK, and income-yielding properties in the USA. The Bank will also continue to consider venture capital and business development opportunities on a very selective basis.

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.

INVESTMENT REVIEW

In FY 2016, VCBank enjoyed another busy year for investment banking activity through the offering of four new investments with a total capital raising of approximatly USD 200 million from clients; together with executing two investment exists. Income from investment banking activities increased substantially to USD 31.1 million, reflecting the success of the Bank's strategic focus on key sectors and geographies in which it has 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 real estate investments, with a reduced emphasis on venture capital and business development themed transactions. 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, the UK and the USA. 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.

POST-ACQUISITION MANAGEMENT

The Post-Acquisition Team monitors and manages the performance of the Bank's portfolio companies in line with their strategic business plans and exit strategies. The Team works closely with the Investment division and Wealth Management team to assess and provide investment performance updates on all VCBank deals and transactions on a regular basis.

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. Two exits – Byrne Investment Limited and Jebel Ali Labour Accommodation – took place in FY 2016. Based on the results of a detailed deal-by-deal action plan by the Post-Acquisition team, the Investments Exit Committee, comprising members of the Board and Management, is currently reviewing a number of potential exit candidates, which are expected to be concluded during FY 2017. External consultants have been appointed to assist VCBank in the sale of appropriate assets.

INVESTMENT HIGHLIGHTS FOR FY 2016

NEW INVESTMENTS

Mado Group, Turkey

Constituting its highest-profile private equity acquisition to date, VCBank acquired 49 per cent of the Mado Group (Mado) during FY 2016, in a total transaction valued at around USD 150 million.

Mado is a Turkish-based patisserie and ice-cream café chain franchisor holding company that owns Yasar Dondurma Company, Mado Pazarlama Company, Ege Dondurma Company and Naturel Gida Company. Established in Turkey in 1962 as a single ice cream shop, the Company has grown to be the leading Turkish ice-cream brand as well as by far the largest café / patisserie chain franchisor in the country, with 302 franchise stores in 49 cities nationwide. The Group has 33 international franchised stores in Bulgaria, Azerbaijan, Nakhchivan, Cyprus, Iraq, Saudi Arabia, Qatar, the UAE, Kuwait and Bahrain. The Company is headquartered in Kahramanmaras and employs about 1,150 employees.

Mado Group has the franchise rights of Mado, which produces, markets and sells a wide variety of Mado-branded food products via a franchise store network and a business-to- business (B2B) channel. Products include ice creams, dairy desserts, sweet pastries, cakes, bakery, meals and juices. Mado is regarded as the leading ice cream brand / chain in the eyes of consumers both in Turkey and the Middle East.

According to Euromonitor, Mado is currently the leading company in the Turkish café / patisserie market with the highest market share, estimated to be almost double that of its closest competitor.

Bridgewater and Preston Creek, Atlanta, USA

A consortium consisting of VCBank and Seera Investment Bank acquired a real estate portfolio valued at USD 26.5 million during FY 2016. The portfolio consists of two multifamily residential assets – Bridgewater and Preston Creek – in Atlanta, Georgia, USA, comprising a total of 866 units. This investment marks the consortium's first investment in the US multifamily sector, in cooperation with a US joint-venture partner offering extensive experience in the management and operation of multifamily residential assets.

After closely screening and reviewing many investment opportunities in various major US metropolitan areas, the consortium chose the city of Atlanta, due to its robust economic factors which are expected to continue during the investment holding period. Atlanta is home to the highest number of headquartered Fortune 500 companies after New York City, Houston, and Dallas. The city is witnessing strong population and job growth, and represents an attractive real estate market with high potential for further rental growth and value appreciation, which will positively enhance the value of the investment.

The Bridgewater property sits on 260,000 square metres of gated land, and consists of 532 residential units spread over 36 buildings; while the Preston Creek property covers 206,000 square metres of gated land, comprising 334 residential units in 19 buildings. Both properties have excellent locations in Atlanta, and feature a wide range of recreational facilities within a garden-style community.

The performance of the properties in the portfolio to date has been consistent with the offering's projections, and the consortium has made three quarterly distributions to investors equating to an annual cash return of 8.5 per cent.

WestHaven at Vinings, Atlanta, USA

In its second US multifamily sector investment in FY 2016, which is valued at USD 25 million, VCBank acquired a 90 per cent interest in the WestHaven at Vinings property in Atlanta, Georgia, USA. The property is a 610-unit garden and town home-style apartment community located within the exceptional Smyrna submarket, approximately 12 miles northwest of downtown Atlanta.

WestHaven at Vinings consists of a family-friendly mix of spacious one-, two- and three-bedroom units built to an "A" standard, with an amenity package that sets it above other properties in the market. Amenities include four swimming pools, four tennis courts, fitness centre, barbeque grill area, business centre, and two clubhouses, located amid scenic landscaping. Such amenities, combined with its favourable unit mix, makes the property extremely competitive against comparable properties, while appealing to a wide range of potential tenant profiles.

The setting of WestHaven at Vinings is excellent to support long-term value, both in terms of its location within the metro area and its highly attractive site. The property benefits from direct access to the Cumberland / Galleria commercial district, which contains 17 million square feet of office space and 3 million square feet of retail space. With easy access to Interstates 75 and 285, commuting to the area's demand generators such as the Home Depot and Suntrust Park, or throughout the Atlanta metro area, is extremely convenient.

Liquidity Programme 3

VCBank launched its third liquidity programme in FY 2016. The programme's shares are backed by the prime asset of the third building of the Jebel Ali Labour Accommodation complex, which has been fully leased to a reputable tenant.

This development builds upon the success of the Bank's first two liquidity programmes. The first, launched in 2010, is secured by the prime asset of the Venture Capital Bank Building in Manama, Bahrain, which comprises office space, retail outlets, and private and public car parking. The second programme, launched in 2015, is backed by the assets of the first two buildings of the Jebel Ali Labour Accommodation complex.


Bridgewater, Atlanta, USA


Preston Creek, Atlanta, USA

INVESTMENT REVIEW (CONTINUED)

INVESTMENT EXITS

Byrne Investment Limited

VCBank exited its USD 39.2 million investment in Byrne Investment Limited (BIL) during FY 2016, providing investors with a return of around 45 per cent since the acquisition of the Company in 2014.

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.

Jebel Ali Labour Accommodation

The successful leasing of the third and final building of Jebel Ali Labour Accommodation complex in FY 2016 marked the complete exit of this investment through the launch of Liquidity Programme 3, which is backed by the prime asset of the third building. The first two buildings constitute the assets of Liquidity Programme 2.

INVESTMENT PORTFOLIO UPDATE

PRIVATE EQUITY

DELTA COMPANY LIMITED

VCBank holds 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 USD1 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. During 2016, the Company continued to perform strongly, posting an increase in revenues and net profit.


Goknur


Turkey Farmland

TURKEY FARMLAND

Following the purchase of six million square metres of farmland in prime locations across Turkey during 2015 by VCBank, the farmland has been 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.

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.

Although Goknur's profitability in 2015 was affected by a deterioration in the Turkish Lira exchange rate, and also by a decline in crop production due to severe weather conditions, the Company's performance is expected to stabilise in 2016. Following a strategic review, Goknur will focus its efforts on strengthening its current market position in Turkey, while taking an opportunistic approach to geographical expansion.

The Company is also evaluating strategic options to diversify its business mix and mitigate market risks through the introduction of new innovative product lines.

LEMISSOLER MARITIME COMPANY

The continued weakness of the global shipping market, which reached a record 30-year low in late 2015, led to the restructuring of Lemissoler and the scrapping of the majority of its vessels. The Company's fleet now consists of one vessel which has a long-term charter attached, and a 30 per cent ownership stake in three Supramax vessels from its subsidiary MENA SHIPCO. During FY 2016, the Company successfully negotiated an additional significant haircut on its existing loans with an international investment firm that had acquired the loans from previous lenders. 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.

MENA SHIPCO

Despite significant volatility witnessed by the global shipping industry during the year, MENA SHIPCO continued to perform. 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, the MENA SME Fund made its last capital call in 2010, and was then closed following the acquisition of a stake in QCon. During FY 2016, the Fund continued to monitor and manage its portfolio companies, and explore potential exit options. No further capital allocations were made during the year. 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 intends to relocate some of its rigs – which are cold stacked – to other neighbouring countries.

In a new joint venture with Kuwait & China Trading Company and RG Petro Machinery, the Company has won a bid for a USD 31 million project with Kuwait Oil Company for two workover rigs, with a further requirement for another 20 rigs. Challenger is pursuing other regional opportunities, which include potential long-term water well drilling projects in Egypt.

JAFCCO

Jordan Al Abyad Fertilizers & Chemicals Company (JAFCCO) is currently focused on improving its liquidity situation which has been negatively impacted by the record drop in sulphate of potash (SOP) prices, and limitations imposed on chemical imports by Egypt, one of JAFCCO's primary markets. In addition, operational problems at Al Aqaba port, from where most of the Company's products are exported, have impacted transportation costs and the ability to meet customer delivery schedules. The management team is currently negotiating with financial institutions to increase its working capital financing facilities to improve the Company's constrained liquidity situation. JAFCCO's revenues have been impacted by delays in reaching the required utilisation levels of the plant following major maintenance works, and will not show a significant improvement until the plant reaches break-even production capacity.

ITWorx

ITWorx is one of the largest software outsourcing firms in Egypt, with offices in Saudi Arabia, UAE, Qatar, Europe and the USA. During 2015, the Company secured a number of new projects which improved its financial status. This includes a USD 10.6 million project to operate the digital presence of Abu Dhabi Chamber of Commerce, which is its biggest project to date; as well as a USD 5.1 million project to revamp the public portal and corporate intranet of Qatar Fuel (Woqod). The Company's Educational division has a pipeline of initiatives designed to increase revenue streams, and introduce innovative educational software to the region, including a pilot scheme to help educate Syrian refugees in Lebanon. ITWorx has re-appointed Lazard to manage the sale of the Company in FY 2017 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, the Company has built a dominant position, and earned a high reputation for quality and safety, in the niche segments in which it operates.

QCon has secured a number of new projects in Qatar, and also in Abu Dhabi where revenues have more than doubled in the past two years. In line with its strategy to geographically diversify its revenue streams, the Company is exploring a strategic opportunity in Saudi Arabia; and was declared as the lowest bidder for the Abu Dhabi Oil Refining Company (Takreer) shutdown, with a turnaround value of c. USD 47 million.

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 and internationally. The Board of SVCIC have been re-examining the strategic goals and direction of the Company and will consider a number of options going forward.

Lemissoler Maritime Company

ITWorx

QCon

INVESTMENT REVIEW (CONTINUED)

INVESTMENT PORTFOLIO UPDATE

VENTURE CAPITAL & BUSINESS DEVELOPMENT

LIQUIDITY PROGRAMME 1

This first-of-its-kind Shari'ah-compliant short-term liquidity programme, which completed its sixth year in 2016, is fully subscribed with a long waiting list. The short-term trust certificates of the programme are backed by the prime asset of the Venture Capital Bank Building in Manama, Bahrain, which comprises a combination of 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 utilised. The retail strip is also fully leased, following the signing of new contracts.

LIQUIDITY PROGRAMME 2

The second liquidity programme was launched during FY 2015. The shares of this new programme are backed by the prime asset of the first two buildings of Jebel Ali Labour Accommodation complex, which 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 continues to improve its year-on-year revenues, and is planning the expansion of its current facility with a view to increasing its sources of revenue, mainly from physiotherapy and imaging services.

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, fitting-out is at an advanced stage, and ICT works are in progress. Following the appointment of a Chief Executive Officer, recruitment is at an advanced stage for other key personnel, including a Medical Director and Head Nurse. The current anticipated opening date for the hospital, subject to recruitment and licensing of physicians, is the first quarter of 2017.

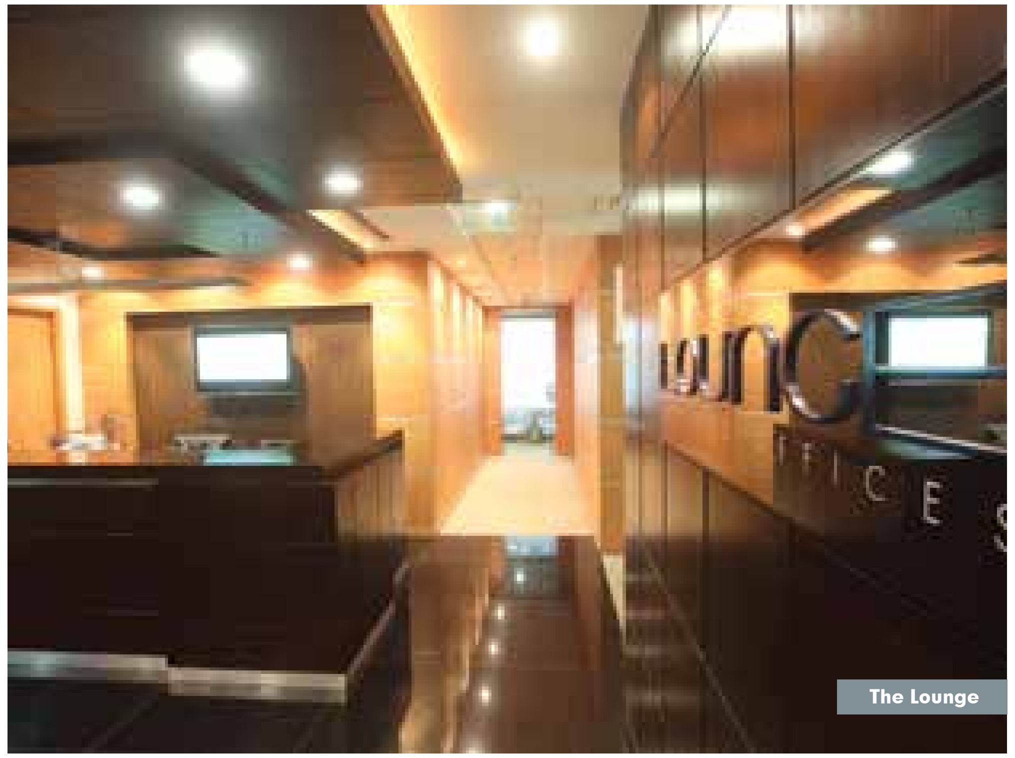
AL KHOBAR SPECIALIST HOSPITAL

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.

German Orthopaedic Hospital

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 the majority of its clients, and managed a healthy occupancy level of 90-95 per cent, revenues have remained consistently steady.



The Lounge

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 to date include the leasing of 90 per cent of space at the Maktabi Watayah commercial complex, and the opening of the business centre with 32 offices. The opening of the 5-star Muscat Grand Millennium Hotel – Oman's first Shari'ah-compliant hotel – is expected to take place during 2016, and will feature a skywalk to the Muscat Grand Mall. In addition, leasing of the mixed-use Muttawar Omani project has achieved a 76 per cent occupancy level, together with the sale of 40 flats to individual buyers; while ILS Oman – a supply chain and logistics services provider in which GLOREI holds a 24 per cent stake – has achieved occupancy of over 80 per cent.

BAYAN REAL ESTATE DEVELOPMENT COMPANY

The focus of Bayan Real Estate Development Company 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 first quarter of 2017. 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.

Royal Maternity Hospital

INVESTMENT REVIEW (CONTINUED)

INVESTMENT PORTFOLIO UPDATE

REAL ESTATE

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 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 to date include receipt of planning approval from Westminster City Council, signing of a term sheet for development financing with Bank ABC (UK), and appointment of CIT Developments LLP as the new Development Managers for the project. Having taken possession of the fully vacant site, the construction team has completed the pre-demolition stage, and with demolition of the site now almost complete, the project is being positioned for the next phase which will be piling.

Mayfair Chambers

24 BUCKINGHAM GATE

In FY 2015, VCBank structured and advised on a GBP 30 million transaction for a select group of investors to acquire a prime freehold residential site under redevelopment in London, UK. Situated in the prestigious SW1 postcode district, close to Buckingham Palace and St. James's Park, 24 Buckingham Gate comprises eight luxury 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 redevelopment works have been completed and the property handed over to the investment team, which has engaged Knight Frank and Hamptons as joint agents for the sale of the apartments.

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 five have already been sold, with offers having been received for the remaining residence. This investment has been partially exited, with investors having received 80 per cent of their invested capital.

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. Tendering for the main contractor is underway.

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. The project is currently at the building permit stage.

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. The plan has been submitted for approval by the relevant authorities.

Park Crescent West

24 Buckingham Gate

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.

FY 2016 proved to be another challenging year, highlighted by severe market volatility, a dramatic drop in oil prices, economic and fiscal reforms by regional governments, and worsening geo-political tensions in some parts of MENA. Against this backdrop, the team maintained its close client relationships through regular visits across the region, and was successful in offering and closing several new investments with a total capital raising of approximately USD 200 million.

Constituting its highest-profile private equity acquisition to date, VCBank acquired 49 per cent of the Mado Group (Mado) during FY 2016, in a total transaction valued at around USD 150 million. Established in Turkey in 1962 as a single ice cream shop, the Company has grown to be the leading Turkish ice-cream brand as well as by far the largest café / patisserie chain franchisor in the country, together with 33 international franchised stores. The offering was fully closed during the year. The non-cyclical nature of the food and beverage sector has resulted in keen interest by investors across the region.

VCBank entered the US multifamily residential sector in FY 2016, with two key portfolio acquisitions in Atlanta, Georgia, USA. In the first, a consortium consisting of VCBank and Seera Investment Bank acquired a real estate portfolio valued at USD 26.5 million comprising two multifamily residential assets at Bridgewater and Preston Creek. The offering was fully placed during the year. In its second investment, valued at USD 25 million, VCBank acquired a 90 per cent interest in the WestHaven at Vinings property, for which placement is currently in progress.

Additionally, VCBank completed two full exits during the year - Jebel Ali Labour Accommodation and Byrne Investment Limited.

The Bank launched its third liquidity programme in FY 2016. The shares of the Liquidity Programme 3 are backed by the prime asset of the third building of the Jebel Ali Labour Accommodation complex, which has been fully leased to a reputable tenant, marking the complete exit of this investment. This development builds upon the success of the Bank's first two liquidity programmes. The first, launched in 2010, is secured by the prime asset of the Venture Capital Bank Building in Manama, Bahrain, which comprises office space, retail outlets, and private and public car parking. The second programme, launched in 2015, is backed by the assets of the first two fully-leased buildings of Jebel Ali Labour Accommodation complex.

In a notable development, VCBank exited its USD 39.2 million investment in Byrne Investment Limited (BIL) during FY 2016, providing investors with a return of around 45 per cent since the acquisition of the company in 2014.

VCBank is committed to providing the highest levels of client service. During the year, the Bank's client relationship management (CRM) system was further customised to meet clients' requirements.

In order to meet clients' needs for more diversified wealth management solutions, VCBank is currently considering additions to its product offering. The Bank has also finalised a timetable of planned investments exits, and identified a number of new deals, which are expected to be concluded during FY 2017.

CORPORATE FUNCTIONS

HUMAN RESOURCES & SUPPORT

Training & Development

The Bank continued to invest in human resource development and training during the year. Members of the Wealth Management and Investor Relations teams underwent special training and certification at the Bahrain Institute of Banking & Finance (BIBF) in line with new CBB requirements. VCBank also continued to support the career development of staff through relevant training courses provided by the BIBF; as well as encouraging staff to attain appropriate professional and postgraduate qualifications.

INVESTOR RELATIONS

The Investor Relations function works closely with the Investment division, Wealth Management and Post-Acquisition teams, and Financial Control and Compliance, to provide the highest levels of client service and compliance with investor-related CBB regulatory requirements. During FY 2016, the client relationship management (CRM) system was further customised to meet the specific needs of shareholders and investors. With the CRM, the client due diligence process is now fully automated, including the incorporation of Foreign Account Tax Compliance Act-related information. Continuous enhancement of the CRM system enables the Bank to provide shareholders and investors with a more focused and responsive service, including the timely provision of improved semi-annual investment portfolio reports.

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 IT infrastructure and assets. The IT team was expanded with an additional member of staff with specific experience in Network & System Security. Key developments during FY 2016 included advanced monitoring of IT resources through 'pre-emptive alerting' which provides awareness of any problems before they are reported by staff. A new test environment was also established in a virtual set-up through a dedicated server to facilitate requested changes; while a new cloning and imaging system, providing fail-over and backup, was introduced to save time and effort. During the year, the relocated disaster recovery site became fully operational after successful testing, in support of the Bank's business continuity plan. In line with new CBB regulations, a gap analysis of the Bank's cyber security system was conducted, supported by preventive action processes, and user awareness and education. The physical security of the Venture Capital Bank building was also assessed and enhanced with additional CCTV cameras. Following implementation of the CRM system, the results of an external technical audit were reviewed to identify future enhancements.

FINANCIAL CONTROL

The Bank's Financial Control Group (FINCON) comprises dedicated units for financial accounting and regulatory reporting, cash management, and operations. During the year, the Group continued to play a key role in supporting and meeting the information requirements of the Board, senior management, and investment, wealth management and investor relations teams. FINCON 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. The Group also contributed to the successful roll-out and further enhancement of the Bank's variable remuneration framework in line with CBB's Sound Remuneration Practices.

CORPORATE COMMUNICATIONS

The Corporate Communications function is responsible for maintaining the Bank's communications 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. Corporate Communications is also responsible for implementing and monitoring the Bank's corporate social responsibility (CSR) programme.

CORPORATE SOCIAL RESPONSIBILITY

VCBank has an enduring commitment to contribute to the economic development and social well-being of the Kingdom of Bahrain, and the continued growth of the Islamic banking sector, which it implements through its corporate social responsibility (CSR) programme. Key CSR activities during FY 2016 included sponsorship support for an initiative by the Central Bank of Bahrain and the Supreme Council of Women to promote the role of women in the Kingdom's banking sector, as part of Bahrain Women's Day celebrations. The Bank also maintained its ongoing sponsorship of the World Islamic Banking Conference in Bahrain. In addition, VCBank provided financial support for a number of charitable organisations through which to improve the quality of life of the local community.

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 Officer. 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. VCBank uses this model to determine if it has sufficient capital to cover the combination of all balance sheet risks; while maintaining sufficient flexibility to facilitate future growth plans, and protect against periods of prolonged and extreme stress in the Bank's operating environment, execution or performance.

Detailed information concerning the risks to which VCBank is exposed is contained in the Notes to the Consolidated Financial Statements and in the Additional Public 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 (HC) 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.

BOARD OF DIRECTORS

The Board of Directors constitutes the central leadership of VCBank, 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 VCBank'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.

SYSTEM FOR ELECTION AND TERMINATION OF DIRECTORS

The system for the election and termination of Directors is governed by the Bahrain Commercial Companies Law and VCBank's Articles of Association (Articles 23 & 32).

BOARD COMMITTEES AND MEMBERSHIP

Board Committee	Member's Name	Member's Position
Nomination & Remuneration Committee*	Mr. Mohammed Al Athel Mr. Saleh Al Shanfari Mr. Marwan Al Ghurair	Chairman Member Member
Corporate Governance Committee	Mr. Abdulfatah Marafie Dr. Ghassan AlSulaiman Mr. Khalid Al Mediheem	Chairman Deputy Chairman Member
Audit Committee	Mr. Marwan Al Ghurair Dr. Mohammed Jumaan Mr. Adwan Aladwani	Chairman Deputy Chairman Member
Risk Committee	Mr. Saleh Al Shanfari Mr. Mohammed Al Athel Mr. Sulaiman Al Rashid	Chairman Deputy Chairman Member
Finance & Investment Committee	Dr. Ghassan AlSulaiman Mr. Abdulfatah Marafie Mr. Abdullatif Janahi Mr. Mohammed AlSarhan Mr. Mohammed Alkandari	Chairman Deputy Chairman Member Member Member

*The Nomination & Remuneration Committee (NRC) was restructured during the year as per the CBB's request in order to be compliant with HC-5.3.1A. The NRC's new composition is effective from18 May 2016.

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 mandate of the Audit Committee is to provide oversight on financial reporting, internal control and risk management, internal and external audit, and adherence to Islamic 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 III 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 2015 TO JUNE 2016

The Board of Directors and its Committees meet regularly towards fulfilling their responsibilities. A summary of the Board and its Committees meetings for FY 2016 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	6 of 6c	3 of 3c			3 of 3	2 of 2c
Mr. Abdulfatah Mohammed Rafie Marafie	6 of 6	3 of 3			3 of 3c	2 of 2
Mr. Mohammed Abdulaziz AlSarhan	5 of 6	1 of 2	1 of 1		1 of 1	1 of 1
Mr. Abdullatif Mohamed Janahi	6 of 6	3 of 3				
Mr. Saleh Mohammed Al Shanfari	6 of 6	1 of 1	3 of 3c			
Mr. Marwan Ahmad Al Ghurair	5 of 6			4 of 4		
Mr. Mohammed Abdulrazzaq Alkandari	6 of 6	3 of 3				
Mr. Khalid Abdulaziz Al Mediheem	6 of 6				2 of 2	
Mr. Adwan Mohammad Aladwani New Director elected on 8 Dec 2015	3 of 3			2 of 2		
Dr. Mohammed Ahmed Jumaan New Director elected on 8 Dec 2015	3 of 3			2 of 2		
Mr. Sulaiman Abdulrahman Al Rashid New Director elected on 8 Dec 2015	3 of 3		2 of 2			
Mr. Mohammed Saleh Al Athel New Director elected on 8 Dec 2015	3 of 3		1 of 2			
Mr. Nedhal Saleh Al Aujan Directorship term ended on 8 Dec 2015	2 of 3			2 of 2c		
Mr. Sulaiman Ibrahim Al Hudaithi Directorship term ended on 8 Dec 2015	2 of 3					1 of 1
Mr. Abdulhadi Treheeb Al Shahwani Directorship term ended on 8 Dec 2015	2 of 3		1 of 1			
Mr. Yasir Mohammed Al Jarullah Directorship term ended on 8 Dec 2015	2 of 3			2 of 2		

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 2016, the Bank conducted a strategy meeting in the Kingdom of Bahrain for Board Members and the Executive Management team to revisit the Bank's strategic plan and objectives, and develop new pillars to enhance the revised strategy. In addition, the meeting focused on the important aspect of the investments-related framework, the manner in which the Bank manages its investments during the entire investment life cycle, and ways for improving the overall performance of the Bank's investment portfolio.

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 a self-evaluation of the performance of the Board as well as its Committees.

SHARI'AH SUPERVISORY BOARD

Composed of eminent Shari'ah scholars, VCBank'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 12 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 Coordination & 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 suspicious activities (SAR), combating the financing of terrorism, recordkeeping, and staff education and training.

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

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 HC9.2.4B:

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.

FINANCIAL PENALTIES

During FY 2016, the Central Bank of Bahrain (CBB) imposed the following financial penalties on the Bank in accordance with Section EN-6.2A of the CBB Rulebook - Volume 2:

Nature of Financial Penalty	Reference	Date Submitted to CBB	Amount (BHD)
Delay in publication of final accounts in two local daily newspapers, one in Arabic and the other in English	Article (62) of CBB Law	14 October 2015	1,400
Delay in submission of annual audited financial statements to the CBB	BR-A.2.1 CBB Rulebook - Volume 2	5 November 2015	3,600
Delay in confirming the Information contained in the Institutional Information System (IIS)	BR-4A.1.1 CBB Rulebook - Volume 2	27 January 2016	700
Delay in reporting Management accounts of Non-Banking Subsidiaries for the period ended 31 December 2015	BR-3.1.7C	7 February 2016 & 22 February 2016	5,800

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.

The Bank has taken steps to revise and update its remuneration policy to align it with the CBB's rules regarding Board and Executive Management remuneration. The Bank's revised remuneration policy and procedures which were prepared in 2015 with the assistance of a specialised consulting firm and approved by the shareholders general assembly on 8 December 2015, have been updated during the current year based on CBB comments and NRC review, and the updated policy and procedures have been approved by the Board who were delegated this responsibility by 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. The NRC reviews VCBank's remuneration policy and procedures on an annual basis.

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 claw-backs 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 12,000 during the year ended 30 June 2016 (2015: 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. In line with best practice, the Bank uses appropriate corporate and individual scorecard measures of returns and risks in determining 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 the variable remuneration is deferred over a period of 3 years. The deferred portion is 60% for the CEO and his key deputies, and 50% for all other material risk takers or controlled persons whose aggregate annual compensation exceeds BHD 100,000 as required by the CBB. All deferred 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 realisation 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 achieved versus budgeted etc., to arrive at a corporate performance scorecard. No incentive is payable unless a minimum 70% corporate performance score (or such other minimum as set by the Board) 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 appropriately considered in the determination and distribution of performance rewards.

The following metrics are used in this regard: actual net income vs. target; exit income vs. target, weighted average IRR achieved on investment projects during period vs. target; capital adequacy ratio, 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. Additionally, the incentive of staff in control functions is independent 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 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 fiscal year ended 30 June 2016

Particulars	No	Fixed	Variable		Total
		Upfront	Upfront	Deferred	$' 000
Approved persons in business lines	4	1,737	387	580	2,704
Approved persons in control & support	8	1,101	156	40	1,297

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.

Summary of deferred compensation as at 30 June 2016

Particulars	No of phantom units '000	NAV $	Value $' 000
Opening balance	405	1.13	458
Awarded during year and closing balance	525	1.18	620
Paid during year	-	-	-
Changes in value during year		0.05	20
Closing balance	930	1.18	1,098

Summary of compensation for prior year ended 30 June 2015

Particulars	No	Fixed	Variable		Total
		Upfront	Upfront	Deferred	$' 000
Approved persons in business lines	4	1,677	287	431	2,395
Approved persons in control & support	9	1,121	95	27	1,242

BOARD MEMBERS' PROFILES

Dr. Ghassan Ahmed AlSulaiman
Resigned as Chairman in 2016

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

VCBank Committees: Chairman of Finance & Investment Committee; Deputy Chairman of Corporate Governance Committee; Chairman of Nomination & Remuneration Committee (up to 22 March 2016).

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
Elected Chairman in 2016

State of Kuwait
Independent and Non-Executive Director
Elected 6 October 2005
36 years' experience

VCBank Committees: Chairman of Corporate Governance Committee; Deputy Chairman of Finance & Investment Committee; Deputy Chairman of Nomination & Remuneration Committee (up to 22 March 2016)

Chairman: The Commercial Real Estate Company, Kuwait; The Commercial Real Estate Developement Company, Bahrain

Chairman and General Manager: Mozon Investment Holding Company, Morocco

Board Member and Vice Chairman of Investment Committee: The Public Institution for Social Security (PIFSS), Kuwait

Board Member: Amar Finance and Leasing Company, Kuwait; Saudi Venture Capital Investment Company, KSA; Bayan Realty Company, KSA; Goknur Foods Import Export Trading & Production Co., Turkey; TOPSU TARIM HAYVANCILIK GIDA SANAYİ VE TİCARET ANONİM ŞİRKETİ, Turkey

Member: Supreme Council for Planning, Kuwait

Mohammed Abdulaziz AlSarhan
Deputy Chairman

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

VCBank Committees: Member of Finance & Investment Committee; member of Nomination & Remuneration Committee (up to 22 March 2016).

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.

Abdullatif Mohamed Janahi
Board Member

Kingdom of Bahrain
Chief Executive Officer
Elected 6 October 2005
33 years' experience

VCBank Committees: Member of Finance and Investment 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
26 years' experience

VCBank Committees: Chairman of Audit Committee; Member of Nomination & Remuneration Committee (effective from 18 May 2016)

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
28 years' experience

VCBank Committees: Chairman of Risk Committee; Member of Nomination & Remuneration Committee (effective from 18 May 2016).

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).

Adwan Mohammad Aladwani
State of Kuwait

Non-Executive Director
Elected 24 January 2016
41 years' experience

VCBank Committees: Member of Audit Committee.

Chairman: Al Salmiya Group for Enterprise Development Co., Kuwait.

Vice Chairman, Chairman of Nomination & Remuneration Committee and Member of Executive Committee: The Commercial Real Estate Co., Kuwait.

Vice Chairman, Member of Audit Committee and Member of Executive Committee: Bayan Realty Co., KSA.

Vice Chairman : The Commercial Real Estate Development Company, Bahrain.

Board Member, Chairman of Audit Committee and Chairman of Executive & Investment Committee: Industrial & Financial Investment Co., Kuwait.

Board Member, Chairman of Remuneration & Nomination Committee and Vice Chairman of Audit & Risk Committee: Kuwait Resorts Co., Kuwait.

Board Member: TOPSU TARIM HAYVANCILIK GIDA SANAYİ VE TİCARET ANONİM ŞİRKETİ, Turkey; Byrne Investment Limited Co. (BIL); Mozon Investment Holding Company, Morocco.

Khalid Abdulaziz Al Mediheem
Board Member

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

VCBank Committees: Member of Corporate Governance Committee.

Owner & Chairman: Khalid Al Mediheem Trading Establishment.

Co-Owner: Taleah Trading & Industrial Company; Arad Real Estate Company

Mohammed Abdulrazzaq Alkandari
Board Member

State of Kuwait
Non-Executive Director
Elected 25 April 2012
16 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.

Dr. Mohammed Ahmed Jumaan
Board Member

Kingdom of Bahrain
Independent and Non-Executive Director
Elected 24 January 2016
34 years' experience

VCBank Committees: Deputy Chairman of Audit Committee.

Board Member: Royal University for Women; TIG Software; Mena Aerospace Enterprises; Pan Arabian Gourmet; The Malls Real Estate Development Company BSC Closed; Olive VFM WLL

Fellow Member: Royal Aeronautical Society (FRAes); British Computer Society F.B.C.S.

Senior Member: Institute of Electrical and Electronics Engineering

Chartered Professional Engineer

Sulaiman Abdulrahman Al Rashid
Board Member

Kingdom of Saudi Arabia
Independent and Non-Executive Director
Elected 24 January 2016
10 years' experience

VCBank Committees: Member of Risk Committee.

Board Member: Abdulrahman Saad AlRashid & Sons Co; Al Rashid Technology and Power; Saudi Premium Food Co.

CEO: Abdulrahman Saad AlRashid & Sons Co

Mohammed Saleh Al-Athel
Board Member

Kingdom of Bahrain
Independent and Non-Executive Director
Elected 24 January 2016
10 years' experience

VCBank Committees: Deputy Chairman of Risk Committee; Chairman of Nomination & Remuneration Committee (effective from 18 May 2016).

Board Member: Filing & Packing Manufacturing Co. (FIPCO), Malath Insurance & Reinsurance Co.

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
33 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, and 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
17 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
19 years' experience

Mr. Saad Al Khan's background is in the field of Islamic banking. Prior to joining VCBank, he held 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
34 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 34 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.

CORPORATE GOVERNANCE REVIEW (CONTINUED)

Mohamed Jassim Al Shaikh
Executive Director - Head of Wealth Management

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

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

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

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

Mr. Sohail Malik 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 with 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.

Jehad Hasan Qamber
Director - Head of Human Resources & Support

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

Mr. Qamber has extensive experience in the areas of Human Resources, Finance and Investment Banking. Before assuming his current position with VCBank in 2016, he was a Director in the Wealth Management Division. Prior to joining VCBank, Mr. Qamber was Director of HR & Finance with the General Organisation for Youth & Sport (GOYS) of the Kingdom of Bahrain, where he also served as Acting Director of the Technical Affairs Directorate. Previously, he was Head of Quality Assurance at the Kingdom's Civil Service Bureau. Mr. Qamber holds a Master's degree in Business Administration from the University of Glamorgan, Wales, UK.

Asya Hasan, CPA
Director - Head of internal Audit

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

Ms. Hasan is specialised in the field of assurance, attest services, and professional practices. She has an extensive exposure to conducting assurance services in International Financial Institutions (IFIs), and is specialised in financial safeguards of sovereign lending by international and regional monetary funds in financing the government's fiscal deficits and supporting balance of payment. Before joining VC, she was a senior member of the Finance Department at the Arab Monetary Fund (AMF), where she was in charge of risk assessment, lending operations, and compliance with lending terms by the member states. Ms. Hasan was a staff member of the International Monetary Fund (IMF) prior to her role at the AMF, where she was responsible for conducting financial safeguards assessment of central banks of IMF borrowing members. Her role was to diagnose the risk of misuse and misreporting of the IMF's financial resources. Ms. Hasan covered a geographically diversified region during her tenure at the IMF 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.

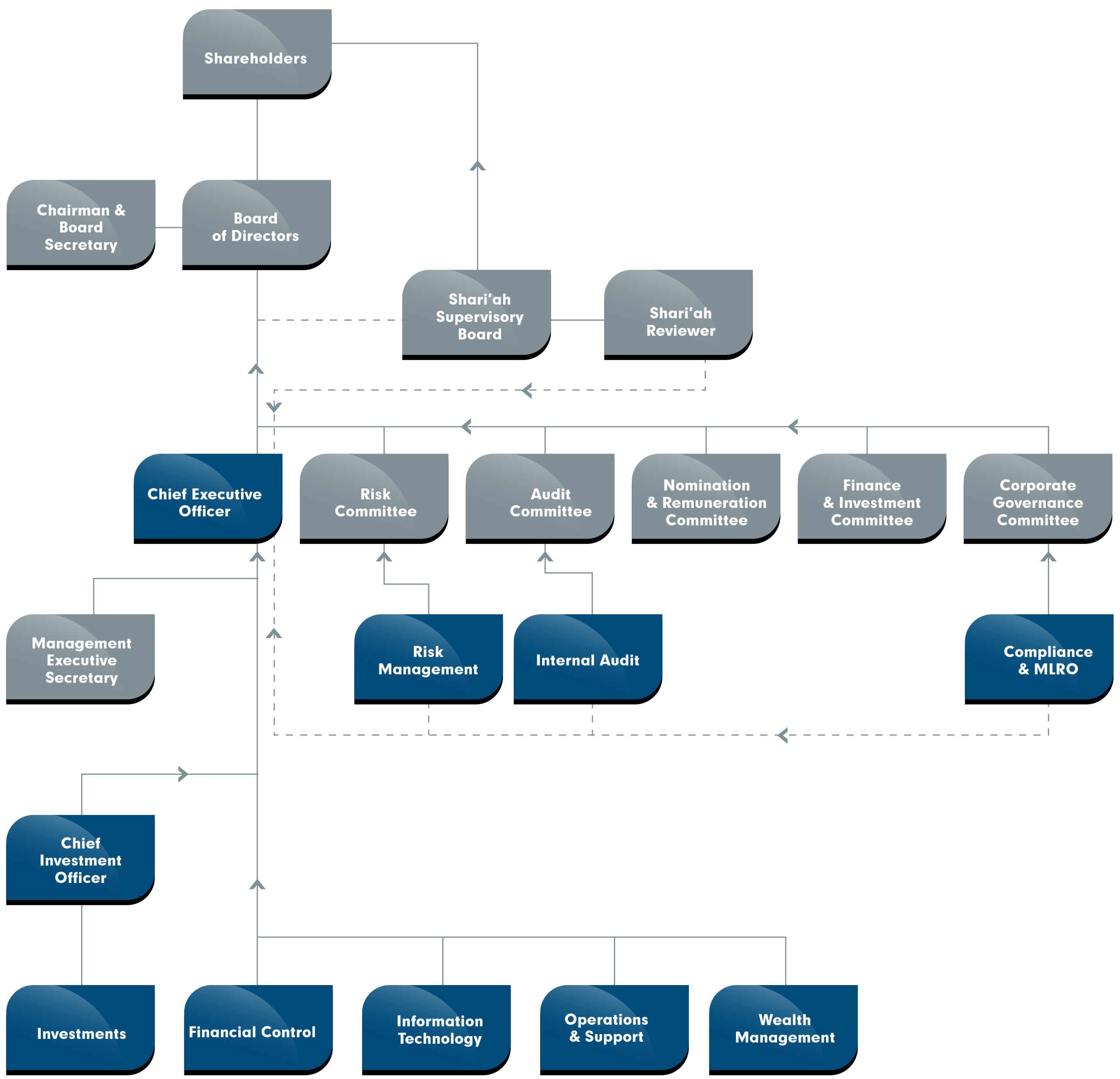
Ms. Hasan is a Licensed Certified Public Accountant (CPA) by the California Board of Accountancy. She also holds an MBA with a concentration in Finance from DePaul University Business School, Chicago, USA; and a BSc degree in Accountancy from the University of Bahrain.

Khalid A.Jalil Al Madani, CIPA
Director - Head of Compliance and MLRO

Member of the Executive Management Committee
Joined VCBank in 2008
13 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"); an 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.

GOVERNANCE AND ORGANISATION STRUCTURE



VCBANK POSTED ANOTHER STRONG FINANCIAL PERFORMANCE FOR FY 2016. TOTAL REVENUE MORE THAN DOUBLED TO USD 36.6 MILLION FROM USD 16.5 MILLION THE PREVIOUS YEAR; WHILE TOTAL EXPENSES WERE USD 16.2 MILLION VERSUS USD 12.6 MILLION FOR FY 2015. THE BANK POSTED A NET PROFIT OF USD 9.3 MILLION IN FY 2016 COMPARED WITH USD 14.1 MILLION FOR THE PREVIOUS YEAR, EQUATING TO A RETURN ON NET PAID-UP CAPITAL OF 4.9 PER CENT. THESE RESULTS WERE AFTER RECOGNISING FAIR VALUE LOSSES AND IMPAIRMANT PROVISIONS OF USD 20.5 MILLION.

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FINANCIAL STATEMENTS

VENTURE CAPITAL BANK

In the name of Allah the Merciful, the Compassionate

Report of the Shari'ah Supervisory Board for period from 01/07/2015 to 30/06/2016

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

In compliance with the letter of appointment, we are required to submit the following report:

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 01/07/2015 to 30/06/2016.

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 30/06/2016.

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 in general 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.

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

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

We praise to Allah the Lord of the worlds.

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

Executed on Thursday, 27/12/1437 H, corresponding to the 29/09/2016

Venture Capital Bank, P.O. Box 11755, Manama, Kingdom of Bahrain
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THROUGH PARTNERSHIP COMES GROWTH - THROUGH EXPERIENCE COMES STRENGTH

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 2016, 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 2016, 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 2016 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

23 November 2016

Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2016

	Note	***30 June 2016 USD '000***	*30 June 2015 USD '000*
ASSETS			
Balances and placements with banks	8	**8,282**	2,724
Investments	9	**188,255**	163,045
Investments in associates and joint venture accounted under the equity method	10	**28,046**	27,816
Murabaha financing to investee companies	11	**40,993**	-
Receivables	12	**38,030**	27,345
Funding to project companies	13	**4,231**	13,860
Other assets	14	**18,030**	7,197
Property and equipment	15	**8,434**	8,833
TOTAL ASSETS		**334,301**	250,820
LIABILITIES			
Islamic financing payables	16	**101,734**	20,011
Employee accruals		**3,746**	6,131
Other liabilities	17	**4,527**	5,211
Total liabilities		**110,007**	31,353
EQUITY			
Share capital	18	**190,000**	190,000
Unvested shares of employee share ownership plan	18	**-**	(10,000)
Statutory reserve	18	**5,859**	4,931
Foreign currency translation reserve		**(127)**	(175)
Retained earnings		**28,562**	34,711
Total equity		**224,294**	219,467
TOTAL LIABILITIES AND EQUITY		**334,301**	250,820
OFF BALANCE SHEET ITEMS			
Equity of investment account holders		**3,756**	3,833

Abdulfatah Mohd. Rafie Marafie
Chairman

Abdullatif M. Janahi
Board Member
and Chief Executive Officer

The attached notes 1 to 38 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 30 June 2016

	Note	*30 June 2016 USD '000*	*30 June 2015 USD '000*
REVENUE			
Income from investment banking services	19	**31,126**	13,732
Finance income	20	**128**	212
Dividend income		**837**	304
Rental and other income	21	**4,550**	2,285
Total revenue		**36,641**	16,533
OTHER GAINS			
Fair value (losses) / gains on investments at fair value through profit or loss	22	**(17,508)**	1,673
Gains from sale of investments	23	**6,397**	7,117
Total income		**25,530**	25,323
EXPENSES			
Staff costs	24	**8,066**	7,263
Travel and business development expenses		**575**	509
Legal and professional fees		**903**	1,263
Finance expense	20	**3,047**	664
Depreciation	15	**477**	507
Other expenses	26	**3,101**	2,392
Total expenses		**16,169**	12,598
PROFIT BEFORE IMPAIRMENT PROVISIONS AND SHARE OF LOSSES OF ASSOCIATES AND JOINT VENTURE		**9,361**	12,725
Impairment provisions charged	25	**(3,005)**	(3,703)
Recovery of impaired receivables	25	**3,690**	5,560
Share of losses of associates and joint venture - net	10	**(402)**	(524)
PROFIT BEFORE BOARD OF DIRECTORS' REMUNERATION		**9,644**	14,058
Board of Directors' remuneration	28	**(365)**	-
NET PROFIT FOR THE YEAR AFTER BOARD OF DIRECTORS' REMUNERATION		**9,279**	14,058

Abdulfatah Mohd. Rafie Marafie
Chairman

Abdullatif M. Janahi
Board Member
and Chief Executive Officer

The attached notes 1 to 38 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2016

	Note	*Share capital 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*	*Retained earnings USD '000*	*Total USD '000*
Balance at 1 July 2015		190,000	(10,000)	4,931	-	(175)	34,711	219,467
Full cancellation of ESOP shares and issue of bonus shares	18c, 27	-	10,000	-	-	-	(10,000)	-
Dividends for 2015	18d	-	-	-	-	-	(4,500)	(4,500)
Net profit for the year		-	-	-	-	-	9,279	9,279
Transfer to statutory reserve		-	-	928	-	-	(928)	-
Foreign currency translation difference on investment in an associate		-	-	-	-	48	-	48
Balance at 30 June 2016		**190,000**	**-**	**5,859**	**-**	**(127)**	**28,562**	**224,294**
Balance at 1 July 2014		190,000	(10,000)	3,525	1,196	-	31,297	216,018
Dividends for 2014	18d	-	-	-	-	-	(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

The attached notes 1 to 38 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2016

	Note	**30 June 2016 USD '000**	30 June 2015 USD '000
OPERATING ACTIVITIES			
Net profit for the year		**9,279**	14,058
Adjustments for non-cash items:			
Gain on investments	23	**(6,397)**	(7,117)
Share of results of associates and joint venture accounted under the equity method	10	**402**	524
Impairment provisions charged - net	25	**3,005**	3,703
Depreciation	15	**477**	507
Dividend income		**(837)**	(304)
Fair value losses (gains) on investments at fair value through profit or loss - net	22	**17,508**	(1,673)
Operating profit before changes in operating assets and liabilities		**23,437**	9,698
Changes in operating assets and liabilities:			
Investments		**(36,713)**	(11,435)
Investments in associates and joint venture accounted under the equity method		**(632)**	(668)
Murabaha financing to investee companies		**(40,993)**	-
Receivables		**(11,529)**	3,520
Funding to project companies		**9,033**	(1,077)
Other assets		**(11,306)**	802
Employee accruals		**(2,385)**	(159)
Other liabilities		**(684)**	(2,016)
Net cash used in operating activities		**(71,772)**	(1,335)
INVESTING ACTIVITIES			
Dividends received		**137**	1,173
Dividends paid	18	**(4,500)**	(8,917)
Property and equipment - net	15	**(78)**	(56)
Net cash used in investing activities		**(4,441)**	(7,800)
FINANCING ACTIVITY			
Islamic financing payables		**81,723**	(177)
Net cash from (used in) financing activity		**81,723**	(177)
Foreign currency translation adjustments		**48**	(175)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**5,558**	(9,487)
Cash and cash equivalents at beginning of the year		**2,724**	12,211
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**8,282**	2,724
Comprising:			
Balances in current and call accounts	8	**8,155**	2,314
Short-term placements	8	**127**	410
		8,282	2,724

The attached notes 1 to 38 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 2016

2016	**Balance as at 1 July 2015 USD '000**	**Movements during the year** Distribution USD '000	**Fair value movement / (impairment) USD '000**	**Net income USD '000**	**Bank's fees as an agent USD '000**	**Balance as at 30 June 2016 USD '000**
GCC Pre IPO Fund	**3,833**	**(45)**	**(52)**	**20**	**-**	**3,756**

2015	Balance as at 1 July 2014 USD '000	Movements during the year Distribution USD '000	Fair value movement / (impairment) USD '000	Net income 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

	2016 USD '000	2015 USD '000
Investment in equities	**3,754**	3,806
Dividends receivable	**-**	25
Balances with banks	**2**	2
Total as at 30 June	**3,756**	3,833

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 38 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 4 July 2016.

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.

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.

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

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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

4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

Standard issued and effective for adoption from 1 January 2015
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 2015 that would be expected to have a material impact on the Group.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency transactions

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 30 June 2016

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 changes in equity under '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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Investments (continued)

(iv) Fair value measurement principles

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

(i) For investments quoted in an active market, fair value is determined by reference to quoted market bid prices prevailing on the reporting date;

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

(iii) For unquoted investments, where the fair values cannot be derived from active markets, fair values are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as expected cash flows, expected scale of activity, EBITDA multiples and discount rates.

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

(v) Impairment of investments

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

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

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

(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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of non-financial assets (continued)

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.

(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:

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Revenue recognition (continued)

(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.

(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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Employee benefits (continued)

(iii) Share based payment transactions

The Group had 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 cancelled the scheme during the current year (refer note 27).

(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.
Lime Restaurant Management and Catering Services Co. W.L.L.	2007	Kingdom of Bahrain	To own, operate and manage restaurant and catering services companies (inactive and liquidated subsequent to the year end).

6 INVESTMENT IN SUBSIDIARIES (continued)

Name of subsidiary	Year of incorporation	Country of incorporation	Principal activities
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	This held employee share ownership plan "ESOP" shares on behalf of the employees and has now been cancelled as explained in note 27.

7 CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

At 30 June 2016

	Fair value through profit or loss USD '000	*Available-for-sale USD '000*	*Amortised cost / cost USD '000*	*Total USD '000*
ASSETS				
Balances and placements with banks	-	-	8,282	8,282
Investments	123,020	65,235	-	188,255
Murabaha financing to investee companies	-	-	40,993	40,993
Receivables	-	-	38,030	38,030
Funding to project companies	-	-	4,231	4,231
Other assets	-	-	16,255	16,255
TOTAL FINANCIAL ASSETS	123,020	65,235	107,791	296,046
LIABILITIES				
Islamic Financing Payables	-	-	101,734	101,734
Other liabilities	-	-	1,473	1,473
TOTAL FINANCIAL LIABILITIES	-	-	103,207	103,207
OFF BALANCE SHEET ITEMS				
Equity of investment account holders	-	3,754	2	3,756

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	-	-	2,724	2,724
Investments	108,928	54,117	-	163,045
Receivables	-	-	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
LIABILITIES				
Islamic Financing Payables	-	-	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

8 BALANCES AND PLACEMENTS WITH BANKS

	30 June 2016 USD '000	30 June 2015 USD '000
Balances in current and call accounts	8,155	2,314
Short-term placements	133	411
Less: Deferred profits	(6)	(1)
	8,282	2,724

Short-term placements comprise Mudaraba and Wakala deals entered into for cash management purposes with locally incorporated Islamic banks of good credit standing. These carry annual profit rates ranging between 1.25 % and 2.5 % (2015: 1.60% and 2.50%) and mature within 90 days of initial placement.

9 INVESTMENTS

	30 June 2016 USD '000	30 June 2015 USD '000
Investments at fair value through profit or loss		
Quoted equities held for trading	5,038	2,816
Unquoted:		
Equities	103,748	93,376
Fund	14,234	12,736
	123,020	108,928
Available-for-sale investments ("AFS")		
Quoted equities	1,380	1,472
Unquoted equities	48,915	51,645
Short term liquidity certificates	14,940	1,000
	65,235	54,117
	188,255	163,045

Investments in unquoted AFS 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 fair value.

The unquoted AFS investments and short term liquidity certificates comprise investments in the following market segments:

	30 June 2016 USD '000	30 June 2015 USD '000
Real estate projects	32,768	23,260
Business development projects	14,152	13,570
Healthcare projects	14,080	14,080
Financial services	2,855	1,735
	63,855	52,645

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

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

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

Name of associate	Nature of business	Country of incorporation	% holding 30 June 2016	% holding 30 June 2015
Mozon Holding SA	Investment development	Kingdom of Morocco	20	20
German Medical Centre Bahrain	Specialist orthopedic 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

Name of joint venture	Nature of business	Country of incorporation	% holding 30 June 2016	% holding 30 June 2015
Global Real Estate Co. W.L.L.	Real estate development	Kingdom of Bahrain	50	50

The carrying value comprises:	30 June 2016 USD '000	30 June 2015 USD '000
Associates	3,331	3,110
Joint venture	24,715	24,706
	28,046	27,816

During the year, movements in investments in associates and joint venture accounted under equity method are as follows:

	30 June 2016 USD '000	30 June 2015 USD '000
At 1 July	27,816	27,847
Capitalisation of funding*	584	668
Foreign currency differences	48	(175)
Share of losses of associates and joint venture, net	(402)	(524)
At 30 June	28,046	27,816

* During the current and previous years, 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 2016 USD '000	30 June 2015 USD '000
Total assets	80,539	86,730
Total liabilities	61,114	28,362
Total revenues for the year	1,080	5,974
Total net loss for the year	(508)	(2,613)

11 MURABAHA FINANCING TO INVESTEE COMPANIES

	30 June 2016 USD '000	30 June 2015 USD '000
Financing to an investee companies in the following sectors:		
Shipping	**34,750**	-
United Kingdom real estate	**6,243**	-
At 30 June	**40,993**	-

These represent financing support extended by the Group to facilitate the debt restructuring and repayments of the investees with external lenders in the form of commodity murabaha contracts at profit rates of 6% p.a. Financing to an investee in the shipping sector is fully secured by pledge of underlying assets of the investee to the Group.

12 RECEIVABLES

	30 June 2016 USD '000	30 June 2015 USD '000
Receivable from investment banking services	**32,984**	35,762
Receivable on sale of investment	**9,167**	-
	42,151	35,762
Less: Specific impairment provision	**(4,121)**	(8,417)
	38,030	27,345

Refer to note 25 for movement in impairment provision.

13 FUNDING TO PROJECT COMPANIES

	30 June 2016 USD '000	30 June 2015 USD '000
Gross funding	**19,780**	31,543
Less: Impairment provision	**(15,549)**	(17,683)
	4,231	13,860

These relate to fundings provided to various 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 provision 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 2016 USD '000	30 June 2015 USD '000
Advances to acquire investments	**13,616**	3,995
Project costs recoverable	**1,899**	2,440
Dividend receivable	**824**	124
Other receivables	**4,320**	2,728
Less: Specific impairment provision	**(2,629)**	(2,090)
	18,030	7,197

Refer to note 25 for movement in impairment provision.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 30 June 2016

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 2015	10,098	1,712	4,697	483	16,990
Additions during the year	-	59	-	19	78
At 30 June 2016	**10,098**	**1,771**	**4,697**	**502**	**17,068**
Depreciation					
At 1 July 2015	1,532	1,629	4,632	364	8,157
Charge for the year	278	40	65	94	477
At 30 June 2016	**1,810**	**1,669**	**4,697**	**458**	**8,634**
Net book value at 30 June 2016	**8,288**	**102**	**-**	**44**	**8,434**
Net book value at 30 June 2015	8,566	83	65	119	8,833

16 ISLAMIC FINANCING PAYABLES

		30 June 2016 USD '000	30 June 2015 USD '000
Medium term Islamic financing payables	16.1	**70,687**	-
Short term Islamic financing payables	16.2	**31,047**	20,011
		101,734	20,011

16.1 This represents a medium term wakala financing raised during the year at an annual profit rate of 6%, with bullet repayment at the end of 4 years with an early repayment option for the lender after 2 years.

16.2 These consist of short-term wakala Islamic financing payables from locally incorporated Islamic banks with maturities of not more than one month. These Islamic financing payables carry annual profit rates of 2.5% to 3.5% (2015: 2.5%).

17 OTHER LIABILITIES

	30 June 2016 USD '000	30 June 2015 USD '000
Accounts payable	**1,473**	2,125
Provisions and accruals	**1,511**	1,386
Deferred income	**1,351**	1,551
Other	**192**	149
	4,527	5,211

18 SHARE CAPITAL

	30 June 2016 USD '000	30 June 2015 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 (2015: 190,000,000 shares of USD 1 each)	**190,000**	190,000

a) 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 928 thousand (2015: USD 1,406 thousand) has been transferred to a statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

b) 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.

c) Unvested shares of Employee Share Ownership Plan

Following necessary regulatory approvals, at the Extraordinary General Meeting ("EGM") of the shareholders held on 8 December 2015, the shareholders resolved to unwind the Bank's Employee Share Ownership Plan "ESOP" and cancel the shares allocated to the ESOP of USD 10 million and repay participants their entitlements.

d) Cash and share dividends

Following the approval of the Bank's shareholders at the Annual General Assembly held on 8 December 2015 and necessary regulatory approvals, the Group distributed a bonus share dividend of USD 10 million and a cash dividend of USD 4.5 million representing 2.5 cents per share (2015: cash dividend of USD 9.24 million representing 5 cents per share).

19 INCOME FROM INVESTMENT BANKING SERVICES

	30 June 2016 USD '000	30 June 2015 USD '000
Investment structuring income	**26,350**	9,954
Investment management and arrangement fees	**4,776**	3,778
	31,126	13,732

20 FINANCE INCOME AND EXPENSE

	30 June 2016 USD '000	30 June 2015 USD '000
Finance income		
Income from placements with financial institutions	**128**	212
Finance expense		
Profit on Islamic financing payables	**(3,047)**	(664)
Net finance expense	**(2,919)**	(452)

21 RENTAL AND OTHER INCOME

	30 June 2016 USD '000	30 June 2015 USD '000
Rental and property management income	**1,901**	1,928
Collective impairment provision released (note 25)	**1,306**	-
ESOP unwinding write back (note 27)	**416**	-
Other income	**927**	357
	4,550	2,285

Other income for 2016 mainly comprises liquidity program certificate profit, project cost recoveries and write backs of excess accruals no longer required (2015: cost recoveries and write back of excess accruals).

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

	30 June 2016 USD '000	30 June 2015 USD '000
Trading securities	**(459)**	(327)
Investments designated at fair value through profit or loss - net	**(17,049)**	2,000
	(17,508)	1,673

23 GAINS FROM SALE OF INVESTMENTS

	30 June 2016 USD '000	30 June 2015 USD '000
Gain on sale of available-for-sale investments - net	**4,020**	7,117
Gain on sale of investment designated at fair value through profit or loss	**2,377**	-
	6,397	7,117

24 STAFF COSTS

	30 June 2016 USD '000	30 June 2015 USD '000
Salaries and benefits	**7,625**	6,827
Social insurance expenses	**408**	428
Other staff expenses	**33**	8
	8,066	7,263

25 IMPAIRMENT PROVISIONS CHARGED

30 June 2016	Investments USD '000	Investments in associates and JV USD '000	Receivables (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
	Specific impairment provisions relating to						
Provision at the beginning of the year	(20,903)	(5,173)	(8,417)	(15,125)	(2,090)	(2,558)	**(54,266)**
Charge for the year	(1,092)	-	(844)	(596)	(473)	-	**(3,005)**
Transfers	-	-	700	1,534	(124)	(2,110)	-
Impairment provisions charged	**(1,092)**	-	**(144)**	**938**	**(597)**	**(2,110)**	**(3,005)**
Recovery during the year	-	-	1,632	-	58	2,000	**3,690**
Release of provision related to investments derecognised	4,029	-	8	-	-	-	**4,037**
Release of collective provision reapplied to specific provision	-	-	-	-	-	1,306	**1,306**
Write-offs	-	-	2,800	-	-	-	**2,800**
	2,937	-	**4,296**	**938**	**(539)**	**1,196**	**8,828**
Provision at the end of the year	**(17,966)**	**(5,173)**	**(4,121)**	**(14,187)**	**(2,629)**	**(1,362)**	**(45,438)**

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

30 June 2015	*Investments* USD '000	*Investments in associates and JV* USD '000	*Receivables (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
	Specific impairment provisions relating to						
Provision at the beginning of the period	(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)**
Release from collective impairment provision	(400)	-	-	520	(120)	-	-
Impairment provisions charged	(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 derecognised	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).

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26 OTHER EXPENSES

	30 June 2016 USD '000	*30 June 2015 USD '000*
Rent and office expenses	**1,739**	1,682
Publicity, conferences and promotion	**162**	224
Board of directors and Shari'a supervisory board fees and expenses	**571**	431
Exchange loss	**574**	-
Other	**55**	55
	3,101	2,392

27 EMPLOYEE SHARE OWNERSHIP PLAN

The Group had set up an employees' share ownership plan (ESOP) in 2007 under which employees were offered units in the ESOP for purchase at the book value of the equity shares of the Bank determined as on the grant date. However, consequent to a revision of the Bank's remuneration policies undertaken during 2015 and following recommendations of a study by an independent consultant engaged to undertake a review thereof in the light of the CBB sound remuneration regulations, the Bank's shareholders at the EGM held on 8 December 2015 resolved to cancel the ESOP and repay participants their entitlements.

Consequent to the EGM resolution, the 10 million unvested shares of the ESOP have been cancelled, and all participants have been repaid their full entitlements. Procedures for the cancellation of VC Bank ESOP SPC the special purpose vehicle that held the shares of the ESOP are currently in process.

Movement in the ESOP units during the year:
The following table illustrates the number and changes in ESOP units and liabilities during the year.

	30 June 2016		*30 June 2015*	
	No of units (thousands)	*ESOP Liabilities* USD '000	*No of units (thousands)*	*ESOP Liabilities* USD '000
Balance at beginning of year	**6,423**	**3,301**	6,423	3,013
Cancelled during the year	**(6,423)**	**-**	-	-
Dividends credited	**-**	**-**	-	288
Settlement of participants dues	**-**	**(2,885)**	-	-
Write back	**-**	**(416)**	-	-
Balance at end of year	**-**	**-**	6,423	3,301

28 RELATED PARTY TRANSACTIONS

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

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

28 RELATED PARTY TRANSACTIONS (continued)

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

30 June 2016	***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 and placements with banks	-	-	733	-	**733**
Investments	40,815	-	14,234	-	**55,049**
Investments in associates and joint venture	28,046	-	-	-	**28,046**
Murabaha financing to investee companies	34,750	-	-	-	**34,750**
Receivables	841	-	-	-	**841**
Funding to project companies	3,862	-	-	-	**3,862**
Other assets	3,254	-	706	-	**3,960**
Liabilities					
Employee accruals	-	750	-	-	**750**
Other liabilities	-	-	302	-	**302**
Income					
Income from investment banking services	-	-	2,920	-	**2,920**
Share of loss of associates and joint venture accounted for using the equity method	(402)	-	-	-	**(402)**
Other income	-	-	751	-	**751**
Expenses (excluding compensation for key management personnel)					
Impairment allowances against investments	-	-	-	-	**-**
Impairment allowances against receivables	1,182	-	-	-	**1,182**
Commitments and contingencies	20,829	-	-	-	**20,829**

28 RELATED PARTY TRANSACTIONS (continued)

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 and placements with banks	-	-	1,705	-	1,705
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	-	1,698	-	-	1,698
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 receivables	750	-	-	-	750
Commitments and contingencies	40	-	-	-	40

28 RELATED PARTY TRANSACTIONS (continued)

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 end were:

Categories*

	30 June 2016		*30 June 2015*	
	Number of Shares	***Number of Directors***	*Number of Shares*	*Number of Directors*
Less than 1%	**5,851,549**	**6**	5,492,616	6
1% up to less than 6%	**32,051,156**	**6**	30,085,146	6

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

Details of material contracts involving directors include:

	30 June 2016 USD '000	*30 June 2015 USD '000*
Directors' participation in investments promoted by the Group	**190,577**	124,646

Compensation of directors and key management personnel are as follows:

	30 June 2016 USD '000	*30 June 2015 USD '000*
Board of directors' attendance fees	**338**	298
Board of directors' remuneration	**365**	-
Salaries and other short-term benefits	**1,604**	1,612
	2,307	1,910

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 except for a murabaha receivable to a shipping industry investee which are secured by the pledge of 4 ships.

Board of Directors' remuneration
No board remuneration is proposed for the year 2016. The shareholders, at the Annual General Assembly held on 8 December 2015, approved the payment of Board of Directors' remuneration of USD 365 thousand relating to the year ended 30 June 2015 which has been expensed in the year 2016.

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 year ended 30 June 2016 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 2016 is US cents 0.262 for every share held (2015: US cents 0.316 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.

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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 (2015: nil).

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.

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 2016	***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 and placements with banks	8,155	127	-	-	127	-	-	**8,282**
Investments	173,315	6,840	-	8,100	14,940	-	-	**188,255**
Investments in associates and joint venture	28,046	-	-	-	-	-	-	**28,046**
Murabaha financing to investee companies	-	3,000	3,243	-	6,243	-	34,750	**40,993**
Receivables	-	13,185	20,780	-	33,965	4,065	-	**38,030**
Funding to project companies	-	-	-	-	-	4,231	-	**4,231**
Other assets	338	9,914	5,592	909	16,415	1,012	265	**18,030**
Property and equipment	8,434	-	-	-	-	-	-	**8,434**
Total assets	**218,288**	**33,066**	**29,615**	**9,009**	**71,690**	**9,308**	**35,015**	**334,301**
Liabilities								
Islamic financing payables	-	31,047	-	-	31,047	70,687	-	**101,734**
Employee accruals	2,246	-	1,500	-	1,500	-	-	**3,746**
Other liabilities	34	1,842	518	141	2,501	362	1,630	**4,527**
Total liabilities	**2,280**	**32,889**	**2,018**	**141**	**35,048**	**71,049**	**1,630**	**110,007**
Net liquidity gap	**216,008**	**177**	**27,597**	**8,868**	**36,642**	**(61,741)**	**33,385**	**224,294**
Cumulative liquidity gap	**216,008**	**216,185**	**243,782**	**252,650**	**712,617**	**190,909**	**224,294**	-
Commitments and contingencies	**-**	**30,524**	**7,040**	**-**	**37,564**	**920**	**-**	**38,484**

33 MATURITY PROFILE (continued)

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 and placements with banks	-	2,439	-	285	2,724	-	-	2,724
Investments	160,269	-	-	1,000	1,000	1,776	-	163,045
Investments in associates and joint venture	27,816	-	-	-	-	-	-	27,816
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
Liabilities								
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	-
Commitments and contingencies	-	24,204	22,158	-	46,362	-	-	46,362

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

a) Industry sector

30 June 2016	***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 and placements with banks	-	8,282	-	-	-	-	-	-	**8,282**
Investments	34,203	17,765	53,325	10,719	14,080	2,065	7,829	48,269	**188,255**
Investment in associates and joint venture accounted under the equity method	-	-	24,715	-	905	-	-	2,426	**28,046**
Murabaha financing to investee companies			6,243				34,750		**40,993**
Receivables	11	40	4,342	80	58	19	841	32,639	**38,030**
Funding to project companies	-	-	369	-	3,862	-	-	-	**4,231**
Other assets	3,257	51	9,601	19	12	238	-	4,852	**18,030**
Property and equipment	-	-	7,865	-	-	-	-	569	**8,434**
Total assets	**37,471**	**26,138**	**106,460**	**10,818**	**18,917**	**2,322**	**43,420**	**88,755**	**334,301**
Liabilities									
Islamic financing payable	-	29,990	-	-	-	-	-	71,744	**101,734**
Employee accruals	-	-	-	-	-	-	-	3,746	**3,746**
Other liabilities	-	-	-	-	-	-	-	4,527	**4,527**
Total liabilities	**-**	**29,990**	**-**	**-**	**-**	**-**	**-**	**80,017**	**110,007**
Commitments and contingencies (note 36)	**20,524**	**10,000**	**7,040**	**-**	**920**	**-**	**-**	**-**	**38,484**
Equity of investment account holders	**-**	**3,099**	**-**	**-**	**-**	**-**	**-**	**657**	**3,756**

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 and placements with banks	-	2,724	-	-	-	-	-	-	2,724
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
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 (note 36)	14,204	10,000	22,158	-	-	-	-	-	46,362
Equity of investment account holders	-	3,099	-	-	-	-	-	734	3,833

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 or underlying assets exposures for the year ended:

30 June 2016	***GCC countries USD '000***	***Other MENA countries USD '000***	***Europe USD '000***	***Cayman / Americas USD '000***	***Global USD '000***	***Total USD '000***
Assets						
Balances and placements with banks	8,282	-	-	-	-	**8,282**
Investments	99,444	73,581	6,112	1,289	7,829	**188,255**
Investment in associates and joint venture accounted under the equity method	26,914	1,132	-	-	-	**28,046**
Murabaha financing to investee companies	-	-	6,243	-	34,750	**40,993**
Receivables	17,145	17,492	1,000	1,552	841	**38,030**
Funding to project companies	4,231	-	-	-	-	**4,231**
Other assets	4,808	3,427	2,930	6,632	233	**18,030**
Property and equipment	8,434	-	-	-	-	**8,434**
Total assets	**169,258**	**95,632**	**16,285**	**9,473**	**43,653**	**334,301**
Liabilities						
Islamic financing payable	101,734	-	-	-	-	**101,734**
Employee accruals	3,746	-	-	-	-	**3,746**
Other liabilities	4,527	-	-	-	-	**4,527**
Total liabilities	**110,007**	**-**	**-**	**-**	**-**	**110,007**
Commitments and contingencies	**17,960**	**20,524**	**-**	**-**	**-**	**38,484**
Equity of investment account holders	**3,756**	**-**	**-**	**-**	**-**	**3,756**

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 and placements with banks	2,724	-	-	-	-	2,724
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
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

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 2016, the Group had fiduciary assets under management of USD 1,158 million (30 June 2015: USD 1,023 million).

36 COMMITMENTS AND CONTINGENCIES

The Group has issued financial guarantees totaling USD 22.47 million (30 June 2015: USD 36.32 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 nil (30 June 2015: USD 0.04 million) and commitments to invest of USD 16.01 million (30 June 2015: 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 2016. The Group does not hold collateral against any of its exposures as at 30 June 2016 (30 June 2015: nil).

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

a) Credit risk (continued)

Maximum exposure to credit risk (continued)

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

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

Based on the estimates of recovery of these receivables, the Group released USD 1.31 million (2015: provided USD 0.550 million) of collective impairment provisions during the year.

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

	30 June 2016 USD '000	*30 June 2015 USD '000*
Receivables	**7,412**	23,579
Funding to project companies	**19,781**	31,358
Other assets	**2,641**	2,443
Total	**29,834**	57,380

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 2016, the total credit exposure to individual counterparties which comprised 10% or more of the Group's equity was USD 152.4 million relating to four counterparties (30 June 2015: USD 53.97 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.

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

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

	Gross undiscounted cash flows					
30 June 2016	***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	31,047	-	-	85,815	-	**116,862**
Employee accruals	2,246	1,500	-	-	-	**3,746**
Other liabilities	1,876	518	141	362	1,630	**4,527**
Total financial liabilities	**35,169**	**2,018**	**141**	**86,177**	**1,630**	**125,135**
Commitments and contingencies	**30,524**	**7,040**	**-**	**920**	**-**	**38,484**
Equity of investment account holders	**2**	**-**	**-**	**3,754**	**-**	**3,756**

	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

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.

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

d) Market risk (continued)

(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 2016	*30 June 2015*
Placements with financial institutions	1.50%	1.95%
Islamic financing payables	6.00%	2.50%

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 2016 USD '000	*30 June 2015 USD '000*
100 bps parallel increase / (decrease)		
Placements with financial institutions	± 1	± 4
Funding to project companies	± 42	± 139
Islamic financing payables	± 1,017	± 200

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

(ii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risks on certain financing receivables and investments denominated in Kuwaiti Dinars, Great Britain Pounds 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 2016 USD '000	*30 June 2015 USD '000*
Kuwaiti Dinars	**4,931**	2,695
Great Britain Pounds	**7,506**	4,875
Turkish Lira	**44,122**	26,089

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 30 June 2016

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

d) Market risk (continued)

(ii) Currency risk (continued)

The table below indicates the currencies to which the Group had significant exposure at 30 June 2016 and 30 June 2015 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 2016		*30 June 2015*	
	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%	**493**	**-**	269	-
Great Britain Pounds	+10%	**751**	**-**	488	-
Turkish Lira	+10%	**4,412**	**-**	2,609	-
Kuwaiti Dinars	-10%	**(493)**	**-**	(269)	-
Great Britain Pounds	-10%	**(751)**	**-**	(488)	-
Turkish Lira	-10%	**(4,412)**	**-**	(2,609)	-

(iii) Other price risk

The Group's available-for-sale equity investments carried at cost are exposed to risk of changes in equity values. Refer note 3 for significant accounting judgements and estimates in relation to impairment assessment of available-for-sale equity investments carried at cost. The Group manages exposure to other price risks by actively monitoring the performance of the equity securities.

(iv) Equity price risk on quoted equities

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

		30 June 2016		*30 June 2015*	
		Effect on profit USD '000	***Effect on equity USD '000***	*Effect on profit USD '000*	*Effect on equity USD '000*
Trading securities	+1%	**50**	**-**	28	**-**
Available-for-sale	+1%	**-**	**14**	-	15
Trading securities	-1%	**(50)**	**-**	(28)	-
Available-for-sale	-1%	**-**	**(14)**	-	(15)

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

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

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

g) Capital management
The Bank's regulator, the 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 2016 USD '000	*30 June 2015 USD '000*
Total risk weighted assets	**1,141,752**	834,230
CET1 capital	**224,294**	213,702
Additional Tier 1	**-**	91,344
Tier 2 capital	**1,362**	2,558
Total regulatory capital	**225,656**	307,604
Total regulatory capital expressed as a percentage of total risk weighted assets	**19.76%**	36.87%
Minimum requirement	12.5%	12.5%

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 30 June 2016

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 2016	***Level 1 USD 000***	***Level 2 USD 000***	***Level 3 USD 000***	***Total USD 000***
Held for trading	5,038	**-**	**-**	**5,038**
Fair value through profit or loss	**-**	**-**	117,982	**117,982**
Available-for-sale	1,380	**-**	**-**	**1,380**
	6,418	**-**	**117,982**	**124,400**

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

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

	30 June 2016 USD 000	*30 June 2015 USD 000*
At 1 July	**106,112**	92,760
Fair value (losses) / gains recognised in the consolidated statement of income - net	**(17,049)**	2,000
Additional investmentsmade during the year - net	**28,919**	11,352
At 30 June	**117,982**	106,112

38 FAIR VALUE (continued)

Determining fair value under Level 3 includes use of valuation techniques such as the discounted cash flow model. The future cash flows have been estimated by the management, based on information and discussion with representatives of the management of the investee companies, and based on the latest available audited and un-audited financial statements. Cash flows have been projected for an initial period of between two to five years and then a terminal value has been estimated using a combination of value based on forward multiples and at a perpetual growth rate of up to 2% - 6% applied on the discounted cash flows of the last year of the estimate. The discount rates used for computing the present value of future cash flows range from 8.94% – 19.58%. The discount rates have been arrived at after considering the risk free rate, expected market premium, country risk and systematic risk underlying each investee company. The Group has also made use of illiquidity and marketability 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 1,562 thousand, whereas a 1% decrease in the discount rate would increase the fair values by approximately USD 1,565 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 4,551 thousand or reduce the fair values by approximately USD 4,551 thousand respectively.

Investment amounting USD 63,855 thousand (30 June 2015: USD 52,645 thousand) are carried at cost less impairment provision of which the carrying value approximates their fair value as at 30 June 2016.

CONTENTS

ADDITIONAL PUBLIC DISCLOSURES

Pillar 3 Disclosures – 30 June 2016

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 III 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 2016.

These disclosures, also referred to as "Pillar 3" disclosures are designed to promote market discipline and transparency 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 2016, the Bank's total risk weighted assets amounted to US$ 1,142 million; Common Equity, Tier 1 Capital and total regulatory capital amounted to US$ 224.3 million, US$ 224.3 million and US$ 225.7 million respectively. Accordingly, Common Equity Ratio, Tier 1 Capital Adequacy Ratio and total Capital Adequacy Ratio was 19.64%, 19.64% and 19.76% 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 current paid up capital is US$ 190 million held by 172 shareholders from the GCC.

2 Capital Structure (continued)

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 Mgmt & Catering Services Co. W.L.L (dormant and liquidated post year end)	Kingdom of Bahrain	BHD 20,000	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, US$ 14.06 million, and US$ 9.28 million for the years ended 30 June 2014, 2015 and 2016 respectively.

Particulars	June 2016	June 2015	June 2014	June 2013 (18 mths)	December 2012	December 2011	December 2010
Net profit (US$ m)	9.28	14.06	14.59	21.15	18.51	(58.67)	(47.60)
ROC (return on paid up capital)	4.9%	7.8%	8.1%	5.5%	7.2%	-22.9%	-18.6%
Head count	50	49	45	45	42	66	76
Total investments / total assets	65%	76%	70%	75%	76%	76%	71%
Leverage (total liabilities / total equity)	49.0%	14.4%	15%	11%	6%	10%	4%
Retained earnings / paid up capital	15%	19%	17%	-22%	-23%	-30%	-7%

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

2 Capital Structure (continued)

Capital Adequacy

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

2.5 To manage its capital the Bank employs a risk adjusted measure of capital adequacy (i.e. Capital Adequacy Ratio or "CAR") based on the local regulatory regime implemented by the CBB that is consistent with the Basel 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 2016, the Bank continued the development and enhancement of its risk management and internal capital adequacy assessment framework.

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

ADDITIONAL PUBLIC DISCLOSURES
30 June 2016 (continued)

2.13 Capital Adequacy (continued)

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

Table 1: Regulatory Eligible Capital as at 30 June 2016

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		
Legal / statutory reserves	5,859		
Retained profit brought forward	19,284		
Current interim cumulative net income / losses	9,279		
Accumulated other comprehensive income and losses (and other reserves)	(127)		
Total CET1 capital before minority interest	**224,294**		
Total Common Equity Tier 1 capital	**224,294**		
Other Capital (AT1 & T 2)			
General financing loss provisions		-	1,362
Total Available AT1 & T2 Capital		**-**	**1,362**
Net Available Capital	**224,294**	**-**	**1,362**
Total Tier 1		**224,294**	
Total Available Capital			**225,656**
Reconciliation with audited financial statements:			
Shareholder's equity per audited financial statements			**224,294**
Add: Collective impairment provisions			1,362
Total available capital for regulatory purposes			**225,656**

2 Capital Structure (continued)

2.13 Capital Adequacy (continued)

Table 2: Details of exposures and capital requirement

Details of exposures and capital requirement			USD '000
Credit risk:	*Gross exposures*	*Risk weighted exposures*	*Capital charge*
Total Claims on Banks	6,330	1,267	152
Other Corporates Including Category 3 Investment Firms - (net of CRM)	54,193	54,193	6,503
Equity Investments			
Investments in listed equities in banking book	6,409	6,409	769
Investments in unlisted equities in banking book	75,241	112,862	13,543
Significant investment in the common shares of financial entities >10%	14,898	37,245	4,469
Significant investment in the common shares of Commercial Entities	45,693	365,544	43,865
other investment with excess amount over 15%	32,573	260,586	31,270
Holding of Real Estate - Others	84,815	169,630	20,356
Premises occupied by the bank	8,664	8,664	1,040
Other exposures	39,056	39,056	4,687
Total credit risk exposure under standardized approach	**367,873**	**1,055,456**	**126,655**
Market risk:			
Trading equities position	5,038	10,076	1,209
Foreign exchange position	24,077	24,077	2,889
Total market risk under standardized approach	**29,115**	**34,153**	**4,098**
Operational risk under Basic Indicator Approach (ref. below)		**52,143**	**6,257**
Total		**1,141,752**	**137,010**
Total eligible capital - (Tier 1 + Tier 2)		**225,656**	
Total eligible capital - Tier 1		**224,294**	
Common Equity Tier 1		**224,294**	
Total Capital Adequacy Ratio (Tier 1 + Tier 2)		**19.76%**	
Tier 1 Capital Adequacy Ratio		**19.64%**	
Common Equity Tier 1 Ratio		**19.64%**	

Capital requirement for Operational Risk (Basic Indicator Approach)

			USD '000
	2016	*2015*	*2014*
Gross income for prior three years	26,846	28,072	28,511
Average of past 3 years gross income (excl. loss years)	27,810		
Capital requirement for Operational Risk (15%)	4,171		
Risk weighted exposure for Operational Risk	**52,143**		

Total gains / (losses) on investments:	*Year ended 30 June 2016* USD '000
Unrealised fair value losses recognized in the statement of income	(17,508)
Unrealised fair value losses recognized in equity during the year	(92)
Realised gains arising from sales during the year	2,377

2 Capital Structure (continued)

2.13 Capital Adequacy (continued)

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

Table 3 – Details of market risk weighted exposures *USD '000*

Particulars	*30-Jun-16*	*30-Jun-15*	*31-Mar-15*	*31-Dec-14*	*30-Sep-14*	*30-Jun-14*	*31-Mar-14*	*31-Dec-13*	*30-Sep-13*	*Maximum*	*Minimum*
Market risk exposures											
Listed equities held for trading	5,038	2,816	3,008	1,104	907	897	880	115	100	5,038	100
Foreign currency exposure*	24,077	73,851	77,233	72,894	79,897	76,013	65,256	78,887	83,493	83,493	24,077
Market risk charge											
Listed equities held for trading	806	451	481	177	145	143	141	18	16	806	16
Foreign currency exposure	1,926	5,908	6,179	5,832	6,392	6,081	5,220	6,311	6,679	6,679	1,926
Total market risk charge	2,732	6,359	6,660	6,008	6,537	6,225	5,361	6,329	6,695	7,486	1,942
Market risk weighted exposure											
Listed equities held for trading	10,076	5,633	6,017	2,207	1,813	1,793	1,761	230	199	10,076	199
Foreign currency exposure	24,077	73,851	77,233	72,894	79,897	76,013	65,256	78,887	83,493	83,493	24,077
Total market risk weighted exposure	**34,153**	**79,484**	**83,250**	**75,101**	**81,710**	**77,806**	**67,017**	**79,117**	**83,692**	**83,692**	**34,153**

Table 4 – Details of credit risk weight on Islamic financing contracts at 30 June 2016, 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	40,993	40,993
Profit free funding to projects	5,594	7,326
Total Islamic Financing Contracts	**46,587**	**48,319**

3 Risk Management

Risk Governance Structure

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

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

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

a. Risk Identification and Measurement
   i. Procedures for the identification and quantification of risks
   ii. The use of quantitative models and qualitative approaches to assess and manage risks
b. Risk Control
   i. Clearly defined risk exposure limits
   ii. Criteria for risk acceptance based on risk and return as well as other factors
   iii. Portfolio diversification and, where possible, other risk mitigation techniques
   iv. Robust operating policies and procedures
   v. Appropriate Board Committee's authorization and approval for investment transactions
c. Risk Monitoring and Reporting
   i. Ongoing review of exposures and risks by Risk Management Department, including stress testing and frequent reporting to the Board
   ii. Periodic internal audits of the Bank's control environment

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

3 Risk Management (continued)

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

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

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

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

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

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

3.7 The credit risk exposures faced by the Bank are principally in respect of its own short term placements with other financial institutions and in respect of investment related funding made to projects. The investment related funding exposures arise in the ordinary course of its investment banking activities and are generally transacted without contractual due dates, collateral or other credit risk mitigants. All such exposures are however reviewed periodically for recoverability and specific provisions made where necessary having regard to the nature of the exposure and the assessment of collection. Additionally, a collective impairment provision is also recorded to reflect general market risks and negative market conditions. As at 30 June 2016, the total collective impairment provision stood at US$ 1.36 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.

3 Risk Management (continued)

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$ 22.47 million (30 June 2015: 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$ 16.01 million (30 June 2015: US$ 10.04 million; and

c. Restricted investment accounts of US$ 3.76 million (30 June 2015: US$ 3.83 million) (refer to statement of changes in off-balance equity of investment account holders to the financial statements).

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.

ADDITIONAL PUBLIC DISCLOSURES
30 June 2016 (continued)

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:

a. *Table 5: Distribution of the Bank's exposures by geographic sector as at 30 June 2016*

Distribution of Bank's exposures by geographic sector

USD '000

Geographic sector	*GCC countries*	*Other MENA countries*	*Europe*	*Cayman / Americas*	*Global*	*Total*
Assets						
Balances and placements with banks	8,282	-	-	-	-	8,282
Investments	99,444	73,581	6,112	1,289	7,829	188,255
Investment in associates and joint venture accounted under the equity method	26,914	1,132	-	-	-	28,046
Murabaha financing to investee companies	-	-	6,243	-	34,750	40,993
Receivables	17,425	17,212	1,000	1,552	841	38,030
Funding to project companies	4,231	-	-	-	-	4,231
Other assets	4,808	3,427	2,930	6,632	233	18,030
Property and equipment	8,434	-	-	-	-	8,434
Total assets	**169,538**	**95,352**	**16,285**	**9,473**	**43,653**	**334,301**
Off statement of financial position items						
Equity of investment account holders	3,756	-	-	-	-	3,756
Commitments and contingencies	17,960	20,524	-	-	-	38,484
	191,254	**115,876**	**16,285**	**9,473**	**43,653**	**376,541**

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 2016

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

Industry sector	*Trading & manuracturing*	*Banks & financial Inst.*	*Real estate related*	*Oil and Gas*	*Health Care*	*Technology*	*Shipping*	*Others*	*Total*
Assets									
Balances and placements with banks	-	8,282	-	-	-	-	-	-	8,282
Investments	34,203	17,765	53,325	10,719	14,080	2,065	7,829	48,269	188,255
Investment in associates and joint ventures accounted under the equity method	-	-	24,715	-	905	-	-	2,426	28,046
Receivables	11	40	4,342	80	58	19	841	32,639	38,030
Murabaha financing to an investee companies	-	-	6,243	-	-	-	34,750	-	40,993
Funding to project companies	-	-	369	-	3,862	-	-	-	4,231
Other assets	3,257	51	9,602	19	12	238	-	4,852	18,031
Property and equipment	-	-	7,864	-	-	-	-	569	8,433
Total Assets	**37,471**	**26,138**	**106,460**	**10,818**	**18,917**	**2,322**	**43,420**	**88,755**	**334,301**
Off statement of financial position items									
Equity of investment account holders	-	3,099	-	-	-	-	-	657	3,756
Commitments and contingencies	20,524	10,000	7,040	-	920	-	-	-	38,484
	57,995	**39,237**	**113,500**	**10,818**	**19,837**	**2,322**	**43,420**	**89,412**	**376,541**

3 Risk Management (continued)

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

c. Table 7: Exposures by maturity as at 30 June 2016

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 and placements with banks	8,155	127	-	-	127	-	-	8,282
Investments	173,315	6,840	-	8,100	14,940	-	-	188,255
Investment in associates and joint ventures	28,046	-	-	-	-	-	-	28,046
Murabaha financing to an investee companies		3,000	3,243	-	6,243	-	34,750	40,993
Receivables	-	13,465	20,500	-	33,965	4,065	-	38,030
Funding to project companies	-	-	-	-	-	4,231	-	4,231
Other assets	338	9,914	5,592	909	16,415	1,012	265	18,030
Property and equipment	8,434	-	-	-	-	-	-	8,434
Total assets	**218,288**	**33,346**	**29,335**	**9,009**	**71,690**	**9,308**	**35,015**	**334,301**
Off statement of financial position items								
Equity of investment account holders	2	-	-	-	-	3,754	-	3,756
Commitments and contingencies	-	30,524	7,040	-	37,564	920	-	38,484
	218,290	**63,870**	**36,375**	**9,009**	**109,254**	**13,982**	**35,015**	**376,541**

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 2016

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	-	-	606	606
Placements with financial institutions	-	-	127	127
Investments	40,815	-	14,234	55,049
Investments in associates and joint venture	28,046	-	-	28,046
Murabaha financing to an investee companies	34,750			34,750
Receivables	841	-	-	841
Funding to project companies	3,862	-	-	3,862
Other assets	3,254	-	706	3,960
Liabilities				
Employee accruals	-	750	-	750
Other liabilities	-	-	302	302
Income				
Income from investment banking services	-	-	-	-
Share of loss of associates and joint venture accounted for using the equity method	(402)	-	-	(402)
Other income	-	-	751	751
Realised gain on sale of investment property	-	-	-	-
Expenses (excluding compensation for key management personnel)				
Impairment allowances against investments	-	-	-	-
Impairment allowances against receivables	1,182	-	-	1,182
Commitments and contingencies	20,829	-	-	20,829

ADDITIONAL PUBLIC DISCLOSURES
30 June 2016 (continued)

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.

3 Risk Management (continued)

Legal Risks

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

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

Shari'ah compliance

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

Equity Risk in the Banking Book (Investment Risk)

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

3.26 The Bank uses the Standardised Approach 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.

3 Risk Management (continued)

Unrealized Fair Value Gains (losses)

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

Table 9: Unrealized Fair Value (Loss) / Gain

USD '000

Particulars	***12 months ended June 2016***	***12 months ended June 2015***	***12 months ended June 2014***	***18 months ended Jun 2013***	***12 months ended Dec 2012***	***12 months ended Dec 2011***	***12 months ended Dec 2010***
Private Equity investments - fair value (losses) / gains	(17,049)	2,000	(2,250)	(7,300)	(2,000)	(1,711)	-
Real Estate investments - fair value (losses) / gain	-	-	-	-	-	(13,572)	(15,100)
Listed equity investment - fair value (losses) / gains	(459)	(327)	17	(15)	(20)	(131)	(58)
Total unrealized fair value (loss) / gain	**(17,508)**	**1,673**	**(2,233)**	**(7,315)**	**(2,020)**	**(15,414)**	**(15,158)**

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 have obtained an Islamic financing payables comprising short term bank borrowings of US$ 31.1 million and a medium term loan of US$ 70.7 million as at 30 June 2016. 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 & Cash Management in consultation with the business and finance functions of the Bank, including considerations of stress scenarios. Additionally, during 2016, a Funding Plan has been developed and put in place as part of the process improvements for the comprehensive management of liquidity funding risk. The Bank also has a portfolio of quoted equity securities in addition to holdings of liquidity certificates in its yielding Liquidity Programs which are available to meet any unexpected shortfalls in funding requirements.

3 Risk Management (continued)

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 14% as at 30 June 2016

Table 10: Liquidity Ratio as at 30 June 2016	USD '000
Cash at bank	8,155
Placements at bank	127
Marketable trading securities	5,038
Marketable available-for-sale securities	1,380
Short term liquidity certificates	-
Total liquid assets	**14,700**
Total liabilities	**101,734**
Of which, due in up to 1 year	31,047
Non current, due after 1 year or more	70,687
Liquid assets / total liabilities	**14%**
Liquid assets / current liabilities (due within 1 year)	**47%**

ADDITIONAL PUBLIC DISCLOSURES
30 June 2016 (continued)

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

Position at 30 June 2016 Repricing period	*USD'000*				
	Rate sensitive assets	*Rate sensitive liabilities*	*Gap*	*Cumulative Gap*	*Impact of 200 bp change*
> 1 day to 3 months	3,127	31,047	(27,920)	(27,920)	(140)
> 3 months to 6 months	3,243	-	3,243	(24,677)	32
> 6 months to 12 months	-	-	-	(24,677)	-
> 1 year to 5 years	34,750	70,687	(35,937)	(60,614)	(3,594)
Total	41,120	101,734			
As % of total balance sheet	12%	30%			

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

a. The Bank's net profit margin income for the repricing period of 1 day to 3 months would potentially decrease by US$ 140 thousand if the profit margin rate increases by 200 basis points.

b. The Bank's net profit margin income for the repricing periods of 3 months to 6 months would potentially increase by US$ 32 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 5 years would potentially decrease by US$ 3,594 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 USD'000

	12 months ended Jun 2016	*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*
GCC Pre IPO Fund						
Net profit/(loss)	4	(152)	-	34	-	71
Total assets	3,756	3,833	3,879	3,740	3,678	3,681
Total equity	3,756	3,833	3,879	3,740	3,678	3,681
Return on assets (ROA)	0%	-4%	0%	1%	0%	2%
Return on equity (ROE)	0%	-4%	0%	1%	0%	2%
VC Bank Investment Projects Mudarabah						
Net Profit	N/A	N/A	N/A	N/A	N/A	886
Total assets	N/A	N/A	N/A	N/A	N/A	14,105
Total equity	N/A	N/A	N/A	N/A	N/A	13,165
Return on assets (ROA)	N/A	N/A	N/A	N/A	N/A	6%
Return on equity (ROE)	N/A	N/A	N/A	N/A	N/A	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).

ADDITIONAL PUBLIC DISCLOSURES
30 June 2016 (continued)

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 2016		*Cumulative impairment provision as of 30 June 2016*		
Particulars	***Gross exposure***	***Specific***	***Collective***	***Specific***	***Collective***	***Net carrying value***
Investments	34,187	1,092	-	17,966	-	16,221
Investments in associates and joint venture	5,173	-	-	5,173	-	-
Receivable from investment banking services	7,412	844	-	4,121	-	3,291
Funding to project companies	19,781	596	-	14,187	1,362	4,232
Other assets	2,641	473	-	2,630	-	11
Total	**69,194**	**3,005**	**-**	**44,077**	**1,362**	**23,755**

Table 14: Impairment provisions - by industrial sector **USD '000**

		Impairment booked during the year ended 30 June 2016		*Cumulative impairment provision as of 30 June 2016*		
Particulars (USD '000)	***Gross exposure***	***Specific***	***Collective***	***Specific***	***Collective***	***Net carrying value***
Real estate	37,562	1,092	-	23,361	1,362	12,839
Health care	5,220	-	-	1,300	-	3,920
Technology	15,462	596	-	15,462	-	-
Oil and gas	18	-	-	18	-	-
Transportation	8,126	1,230	-	2,485	-	5,642
Others	2,805	87	-	1,452	-	1,354
Total	**69,194**	**3,005**	**-**	**44,077**	**1,362**	**23,755**

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 2016. 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	3.29%
Kuwait	23.66%
Kingdom of Saudi Arabia	57.71%
Qatar	4.78%
Oman	2.57%
Kingdom of Bahrain	7.99%
Total	**100.0%**

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

Ownership %	***Number of shareholders***
Less than 1%	146
1% - 2%	16
2% - 3%	6
3% - 4%	2
4% - 5%	0
More than 5%	2
Total	**172**

Two 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.) – 7.23% ownership; and
- Securities Group (K.S.C.C.) – 6.02% 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 1.19% 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 0.15% to 2.51% of total capital. In addition a number of Board members represent corporate shareholders with shares ranging from 0.48% to 6.02%.

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.