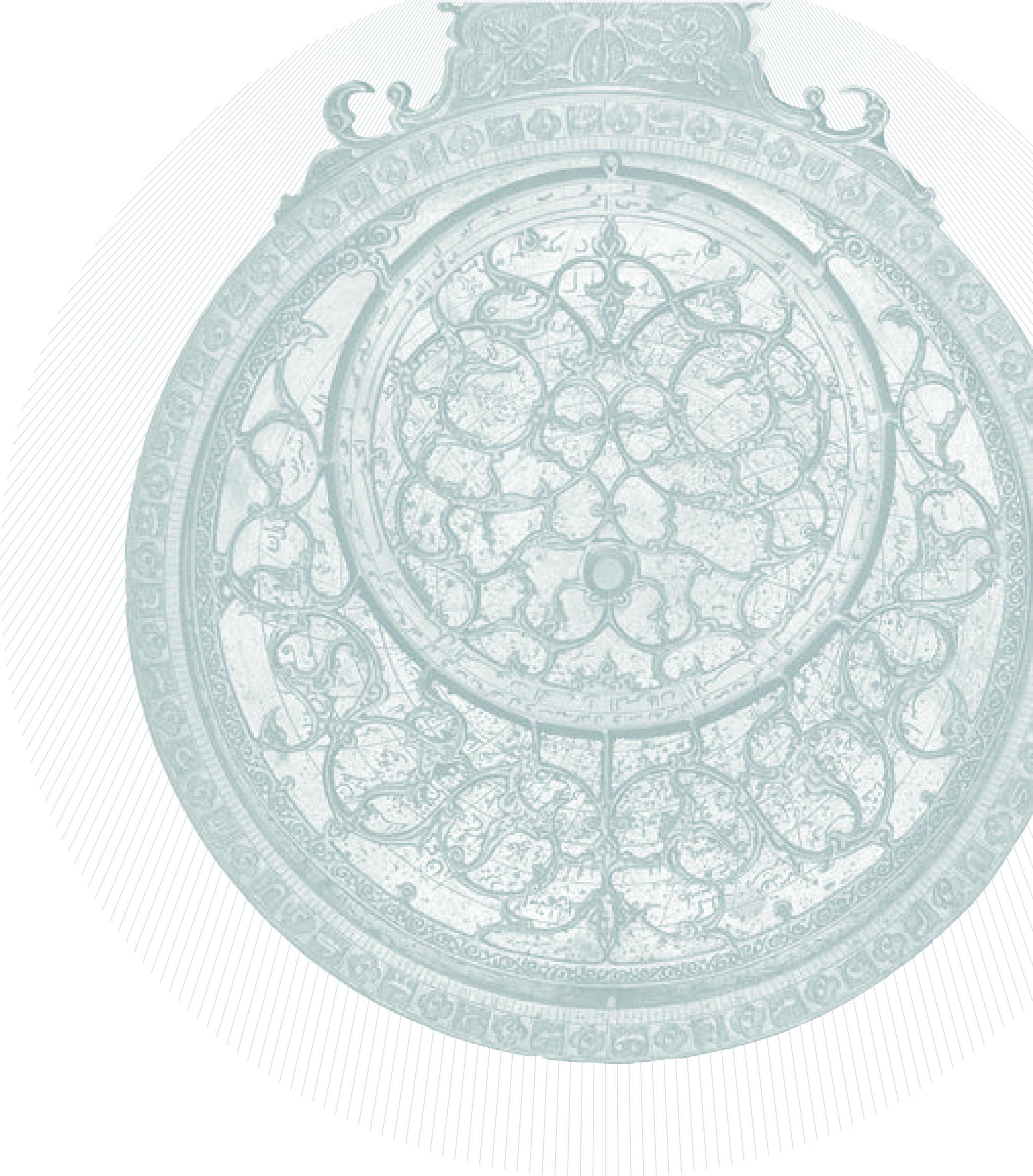

Navigating a path to **future growth**

Annual Report 2016 - 2017

VENTURE CAPITAL BANK

Venture Capital Bank BSC (c)

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Road 1704, Block 317
Diplomatic Area

P.O. Box 11755, Manama
Kingdom of Bahrain
Te: +973 1751 8888
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www.vc-bank.com

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

بسم الله الرحمن الرحيم

Contents

Corporate Overview

Venture Capital Bank (VCBank) is the first Islamic investment bank in the GCC and MENA region to specialise in small-to-medium enterprises (SMEs) and venture capital investment opportunities.

Commencing operations in the Kingdom of Bahrain in October 2005, VCBank operates under an Islamic wholesale banking licence from the Central Bank of Bahrain. With an authorised capital of USD 500 million and paid up capital of USD190 million, the Bank benefits from the financial backing and support of a prominent group of regional shareholders; an experienced team of industry professionals; and a close-knit network of strategic partners, business associates and allies.

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

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 SME 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.

Chairman's Statement

ABDULFATAH MOHAMMED RAFIE MARAFIE
Chairman of the Board

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

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of Venture Capital Bank (VCBank) for the fiscal year ended 30 June 2017. Without doubt, this proved to be one of the most challenging periods for the regional investment banking industry since the financial crisis of 2008.

The year was marked by continued economic and market volatility, falling oil prices and a regional liquidity crunch; together with subdued corporate and investor sentiment. Additional factors included ongoing austerity measures and fiscal reforms by regional governments; plus heightened geopolitical tensions at a global and regional level. It was also a year of surprises, including the outcome of the Brexit referendum, and results of elections in the US and Europe; as well as one of the worst diplomatic crises to affect the GCC, following the severing of ties with one of the member states.

In light of such a challenging backdrop, we implemented a strategic realignment of the Bank, adopting a new qualitative-based approach towards new investments and the post-acquisition management of our investment portfolio. At the beginning of the year, under the direction of the Chairman, the Board and Executive Management took part in a special strategic workshop, at which all portfolio companies were subjected to thorough investment stress testing and analysis to determine the most realistic valuations. The Chairman and Board also identified those legacy projects that have been affected by financial, economic, market or geopolitical issues, and need to be revived. In addition, the most eligible candidates for immediate exit were selected and earmarked for priority action. This new strategic focus continued to be implemented throughout the year.

In the best interests of shareholders and investors, and in the spirit of full transparency and sound investment banking, the Board has decided to clear the investment portfolio

"The Board and Executive Management took part in a special strategic workshop, at which all portfolio companies were subjected to thorough investment stress testing and analysis to determine the most realistic valuations."

of all potential impairments and fair value losses, both short and long term, in order to protect the balance sheet and provide a faithful presentation of the Bank's financial position. Accordingly, we booked impairment provisions and fair value losses totalling USD 44.7 million during the year in a conservative and prudent manner, which has resulted in the Bank reporting a loss of USD 53.6 million for fiscal year 2017.

This loss should not be interpreted as a negative reflection of the Bank's financial position or capabilities. Strongly capitalised at USD 190 million, and with assets under management exceeding USD 1.4 billion and an attractive deal pipeline, the Bank is a financially strong and solid institution. At the end of the fiscal year, our capital adequacy ratio was 15.3 per cent, considerably higher than the minimum requirement of the Central Bank of Bahrain.

During the year, as directed by the Chairman, the Board and Management took steps to further enhance the institutional capability of the Bank. This included fine tuning our organisation structure, and continuing to invest in our human resources and information technology. We also strengthened our corporate governance framework to ensure ongoing compliance in the face of a changing regulatory environment. To support the Bank's realigned strategic focus, two new ad hoc Board committees were established – Exit Committee and Real Estate Committee – to provide expert advice and feedback to the Board of Directors in these areas. In addition, we maintained our focus on risk management in order to protect the Bank against the impact of increasingly uncertain economic and market conditions.

Looking ahead, next year is likely to be another highly-testing and unpredictable period, marked by continued oil price and market volatility; further reforms by MENA governments to diversify revenues and reduce fiscal deficits; and continued geo-political turmoil in parts of the region. However, the decision to book very conservative provisions and post a loss for this year, will enable the Bank to start fiscal 2018 in a much stronger and healthier position, and focus on implementing our realigned strategy.

With a clean balance sheet, healthy portfolio, adequate liquidity and a strong deal pipeline combined with a determined thrust to achieve exits from legacy investments, we are well placed to capture new business opportunities, and return to profitability. It should be noted that the Bank benefits from a highly-supportive Board, a stable and well-experienced management team, and a very loyal client base. The Board has full confidence in the ability of the Management team to continue responding proactively to the challenges of a new regional economic reality. As such, we have a cautiously optimistic outlook for the Bank's prospects in FY 2018.

In conclusion, on behalf of myself and 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, Commerce & Tourism, 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 its 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

ABDULFATAH MOHAMMED RAFIE MARAFIE
Chairman
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

YASIR MOHAMMED AL JARULLAH
Board Member
Kingdom of Saudi Arabia

Shari'ah Supervisory Board

SHAIKH DR. NIDHAM MOHAMMED SALEH YAQOOBY
Chairman

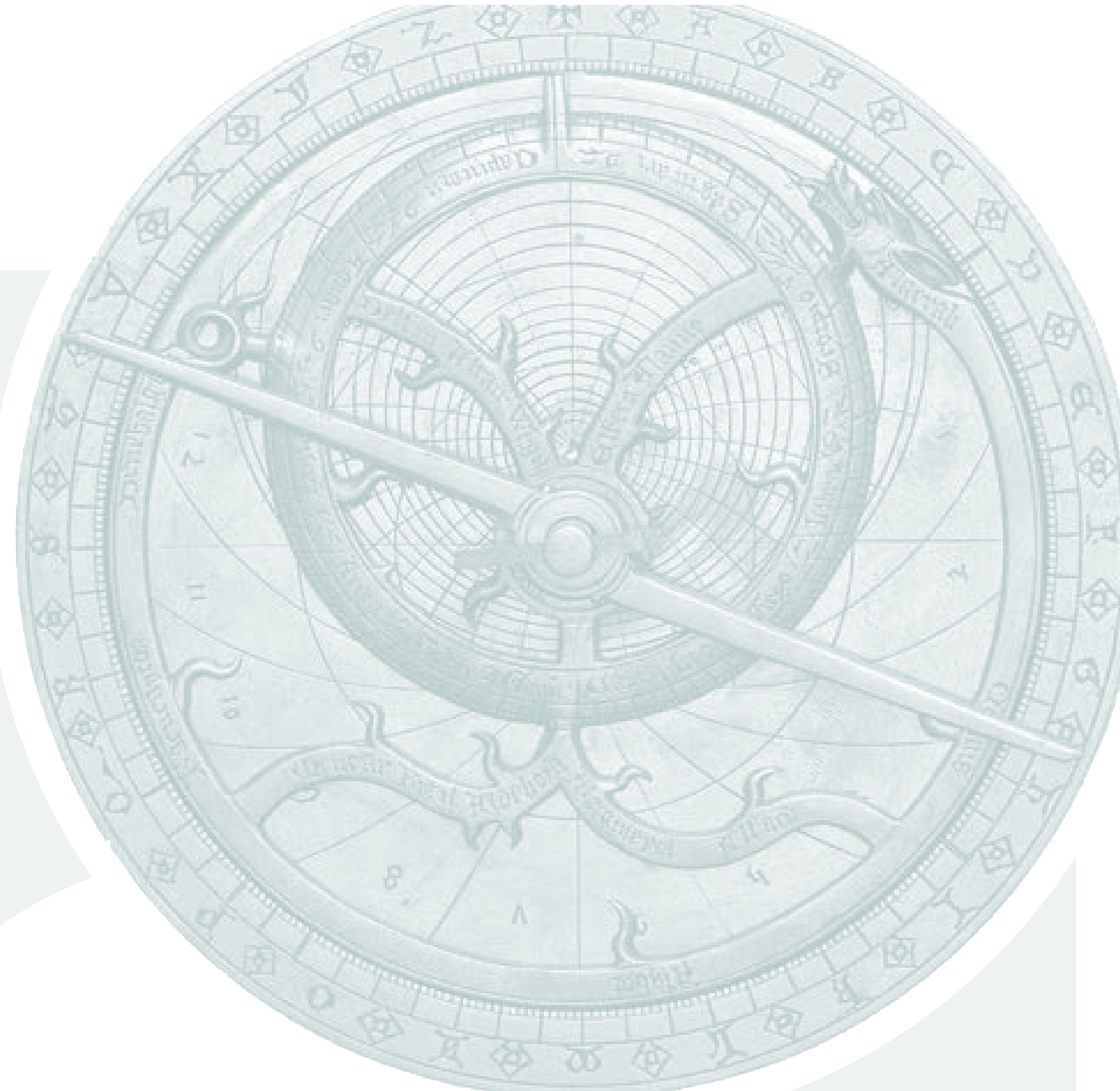
Shaikh Dr. Yaqooby holds a Doctorate in Islamic Studies and a BA degree in Economics & Comparative Religion from McGill University, Canada. He has been guided in Traditional Islamic Studies by eminent Islamic scholars from Saudi Arabia, Bahrain, Egypt, Morocco and India. During the 1990s, he was a Khatib 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 VCBank in order to ensure that they are in compliance with the rules and principles of Islamic Shari'ah.

Chief Executive Officer's Statement

ABDULLATIF MOHAMED JANAHI
Board Member &
Chief Executive Officer

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

In yet another highly challenging year for the GCC and MENA regions, VCBank adopted a prudent and proactive response to unfolding events. These included ongoing volatility of oil prices, a muted performance by stock markets and growing geopolitical turmoil, which combined to adversely affect investor confidence. Given such a scenario, we focused our efforts on realigning our investment strategy, optimising the balance sheet, and strengthening the organisation.

In the light of changing market dynamics, the Board and Executive Management conducted an exhaustive appraisal of the Bank's investment portfolio by asset class, sector and geography, with a particular focus on a realistic valuation and exit potential of our portfolio companies. This entailed identifying problem assets requiring attention, and earmarking the most eligible candidates for exit in the short to medium term.

To ensure the successful implementation of this process, the Post-Acquisition team was reconstituted as an autonomous business unit under the leadership of a highly-qualified private equity professional. The key objective of the team is to maximise the value of the Bank's investment portfolio assets. This will entail evaluating them on a more systematic basis with the assistance of external experts with particular market and sector knowledge; and the utilisation of sophisticated analytical techniques and international best practices that are new to the MENA region.

"We continued to invest in human resources and information technology during the year. To support the Bank's strategic business realignment, particular focus was placed on enhancing the core competencies of task-orientation, time management, teamwork, trust and transparency."

Based on our exhaustive evaluation of the Bank's investment portfolio, we took the decision to book extremely conservative provisions for impairments, providing for all possible circumstances, so as to mitigate any future surprises. Armed with a clean balance sheet and healthier investment portfolio, we will now be able to focus our efforts in the coming year on meeting our strategic objectives and business goals, and returning the Bank to profitability.

During the year, we continued to fine tune our organisational structure in line with industry best practice and regulatory requirements of the Central Bank of Bahrain. Operations and Cash Management were segregated from Financial Control as standalone functions; while Investor Relations, previously part of Operations & Support, was established as an autonomous corporate function to better serve the interests of the Bank's shareholders and investors. These developments, together with a dedicated Post-Acquisition team, will serve to strengthen our institutional capability by improving operating efficiency, maximising synergies, and enhancing staff motivation.

We continued to invest in human resources and information technology during the year. To support the Bank's strategic business realignment, particular focus was placed on enhancing the core competencies of task-orientation, time management, teamwork, trust and transparency. Key IT developments included finalising the implementation of a new virtual environment, partially covering the head office, as well as the disaster recovery site; while further enhancements were made to the Bank's cyber security systems.

Due to the challenging economic and market environment which marked fiscal 2017, investors were notedly more cautious and selective, adopting a 'wait-and-see' approach to new investments. In terms of new transactions, VCBank acquired a 60 per cent direct equity stake in the Fuddruckers Restaurant and Caribou Coffee franchises in the Kingdom of Bahrain, which constitute a growing cash-rich business. Encouragingly, we have developed a healthy pipeline of deals following a study of promising market opportunities.

Looking ahead, we expect another testing and challenging period in fiscal 2018, with many of the issues and concerns that highlighted this year continuing unabated. However, building on their continued resilient economic performance, the MENA and GCC regions are forecast to achieve positive GDP growth for 2017 and 2018, which will benefit our business. We therefore maintain our cautiously 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. I also gratefully acknowledge the enduring trust and confidence of our highly-supportive investors, who play a critical role in the ongoing business success of VCBank. Special thanks are once again due to our management and staff, for their commitment and hard work, and positive attitude towards embracing change and rising to new challenges. We are blessed to have such a dedicated and professional team.

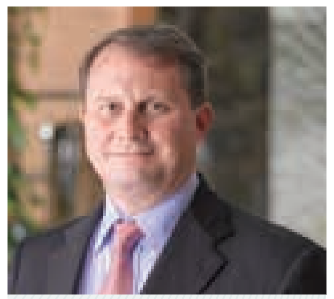
May Allah guide us on the proper path, and lead us to the realisation of our goals for the future success of the Bank.

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

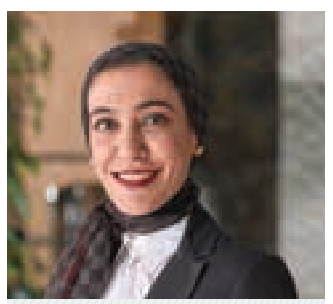


ROBERT C. WAGES
Senior Executive Director
Head of Post-Acquisition

SANTHOSH JACOB KARIPAT
Executive Director
Head of Financial Control

JEHAD HASAN QAMBER
Director
Head of Human Resources & Support

ABDULRAHIM MAHMOOD ALSAEEDI
Director
Acting Head of Wealth Management



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

PRIVATE EQUITY

FUDDRUCKERS AND CARIBOU, BAHRAIN

During FY 2017, VCBank acquired a 60% direct equity stake in the Fuddruckers Restaurant and Caribou Coffee franchises in the Kingdom of Bahrain, which constitute a growing cash-rich business. Fuddruckers and Caribou have been operating in the Kingdom since 1995 and 2007, respectively. There are currently six Fuddruckers and 16 Caribou Coffee outlets across Bahrain, while several new outlets are planned to be opened in the near future.

MADO GROUP

VCBank holds a 49 per cent stake in the Mado Group. Established in Turkey in 1962 as a single ice cream shop, Mado 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.

Mado Group has the franchise rights of Mado, which produces, markets and sells a wide variety of 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 by consumers 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.

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 has implemented an action plan to mitigate the effects of austerity measures enacted by the government of Saudi Arabia, which have affected margins. It is currently exploring ways to diversify its revenue base by entering new markets in MENA, and introducing new products such as renewable energy. Delta declared a 6.5 per cent dividend for 2016.

TURKEY FARMLAND

The Company's total land bank has reached 7.5 million square metres, which is leased to Goknur, the leading Turkish fruit concentrate company, for planting four fruits – apple, pear, sour cherry and peach. During the past year, over 300,000 new trees were planted on 1.7 million square metres of land. The Company is planning to diversify its income stream by constructing farmhouses on selected plots of land for potential sale or lease.

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, in which VCBank and its investors hold a stake of 83.5 per cent. Goknur 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. Leading international investment bank Goldman Sachs has been engaged to commence the sales process of the Company, with an expected exit date of mid-2018.

1


2


LEMISSOLER MARITIME COMPANY

The Company operates a fleet of four specialised commercial vessels and containerships (one owned directly and three through its subsidiary MENA SHIPCO) under long-term, fixed-rate charters with blue chip companies. Improving fundamentals of the bulk carrier market have led to a positive outlook for the industry in the short term, with charter rates and vessel values expected to experience further growth over the next three years. Outstanding loans for Lemissoler and MENA SHIPCO have now been fully repaid, with the four vessels pledged to VCBank against the facility provided. Value for bulk carriers has grown by approximately 40 per cent over the past twelve months; while vessel sales have witnessed a significant increase in volumes of sales as well as average selling prices over the past three years.

1. Goknur
2. Turkey Farmland
3. Lemissoler Maritime Company

MENA SHIPCO

A subsidiary of Lemissoler Maritime Company, MENA SHIPCO 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. Following a challenging year for the global shipping industry in 2016, an improvement in market fundamentals since the beginning of 2017 has led to a positive short-term outlook for the bulk carrier market.

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 2017, 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.

3


Investment Review continued

CHALLENGER LIMITED

Libya-based Challenger is a provider of contract oil and gas land drilling and workover services, operating primarily in the MENA region with a fleet of 29 onshore drilling rigs. Although the situation in Libya remains uncertain with political tensions unresolved, positive signs of stabilisation in Eastern Libya had led to a significant increase in crude output, which is expected to reach one million barrels per day during the summer of 2017. VCBank has undertaken an in-depth analysis of the Company, and has contacted several consultants who have first-hand experience in Libya's oil and gas industry to form a clearer picture of the security and operating situation. A local security firm has been appointed to visit rigs to evaluate their condition and identify the possibility of mobilising the assets.

JAFCCO

Jordan Al Abyad Fertilizers & Chemicals Company (JAFCCO) specialises in manufacturing chemical fertilizers and a range of industrial chemicals. In light of recent technical problems and political issues, the Board has assigned a special committee to develop a plan to turn around the Company and put it back on track. The current plan is to restructure the Company on a management, financial and technical level, and gradually restart operations over the next year. VCBank has prepared an information memorandum to raise capital from new investors in order to proceed with the restart of operations. The offering has received interest from select parties, mainly strategic players in the same market.

ITWorx

ITWorx is one of the largest software outsourcing firms in Egypt, with offices in Saudi Arabia, UAE, Qatar, Europe and the USA. During FY 2017, the Company secured several new contracts across the MENA region; and was recognised by awards from ESRI and Microsoft. The Educational division has successfully introduced innovative educational software to the region, including TeacherKit and a pilot scheme to help educate Syrian refugees in Lebanon, Palestine and Sudan; while finalising plans to launch operations in Latin America. VCBank has re-appointed Lazard to help manage the sale of ITWorx to prospective buyers, with an exit planned for the end of 2017. A number of parties have expressed interest for the acquisition of the entire company or the Education unit separately.

QCON

Established in 1975, Qatar Engineering & Construction Company (QCon) is a leading maintenance and engineering, procurement and construction (EPC) contracting company. For 2016, QCon reported record revenues and profits, declared a six per cent dividend distribution, and entered the new year with a strong order book. In May 2017, consultants were appointed to commence the sales process of the Company. However, the severing of relations with Qatar by Saudi Arabia, the UAE, Bahrain and Egypt in June 2017, has seriously impacted QCon's business in Abu Dhabi and Saudi Arabia; and the exit process has been put on hold until a resolution to the diplomatic crisis is reached.

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4. ITWorx
5. Qcon

SVCIC

Saudi Venture Capital Investment Company (SVCIC) is an investment company primarily focused on investing in promising small and medium enterprises in the Kingdom of Saudi Arabia. Due to continued challenging market conditions, the Company has implemented a number of cost-cutting measures; and the Board has approved a capital reduction plan to achieve a total reduction of SAR 300 million or 80 per cent over the next two years. The plan aims to preserve value to equity investors and return the majority of capital to shareholders.

Investment Review continued

VENTURE CAPITAL & BUSINESS DEVELOPMENT

VCBANK LIQUIDITY PROGRAMMES 1, 2 & 3

The Bank offers three innovative Shari'ah-compliant short-term liquidity programmes with trust certificates and shares backed by prime income-yielding real estate assets. These are located in the Diplomatic Area business district of Manama, Kingdom of Bahrain; and the Jebel Ali industrial area of Dubai, UAE. The offering of each programme is for a maximum period of one year. The profit rate ranges between six per cent for investments held for twelve months and four per cent for one month, with profits being distributed on a quarterly basis.

The first programme was launched in 2010 and is backed by the Venture Capital Bank Building located in the Diplomatic Area of Manama, Bahrain, which comprises a unique combination of office space, retail outlets, and private and public car parks with high occupancy and utilisation levels. The second and third programmes, introduced in 2015 and 2016, are backed by the first two and third buildings respectively, of the Jebel Ali Labour Accommodation Complex in Dubai, 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. Key developments during FY 2017 include a recruitment programme to reach the planned target of six specialist surgeons; and completion of a new physiotherapy wing which is operating at close to 100 per cent, with eight physiotherapists on board. The hospital has also introduced osteopathy, which is a growing field of functional, holistic and preventative medicine, and unique to the region. VCBank is seeking investors interested in entering the defensive, anti-cyclical, healthcare sector to acquire the Company and provide an exit for existing investors, planned for 2018.

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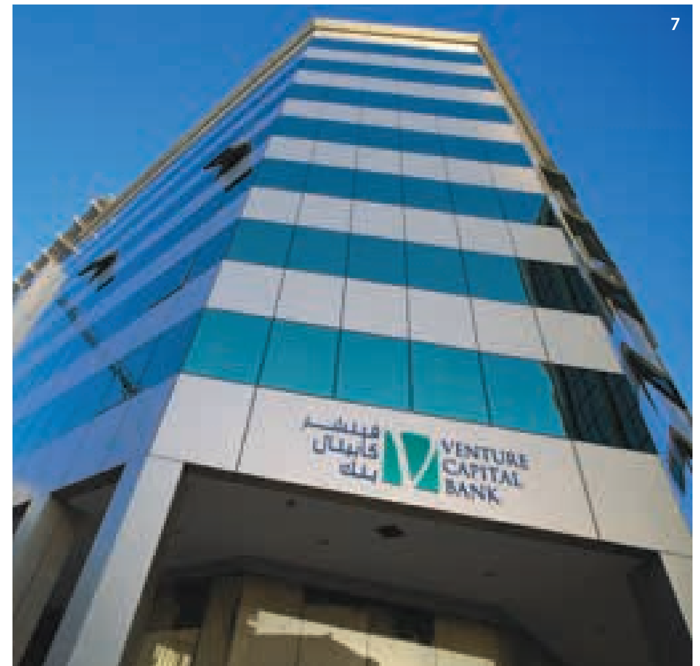

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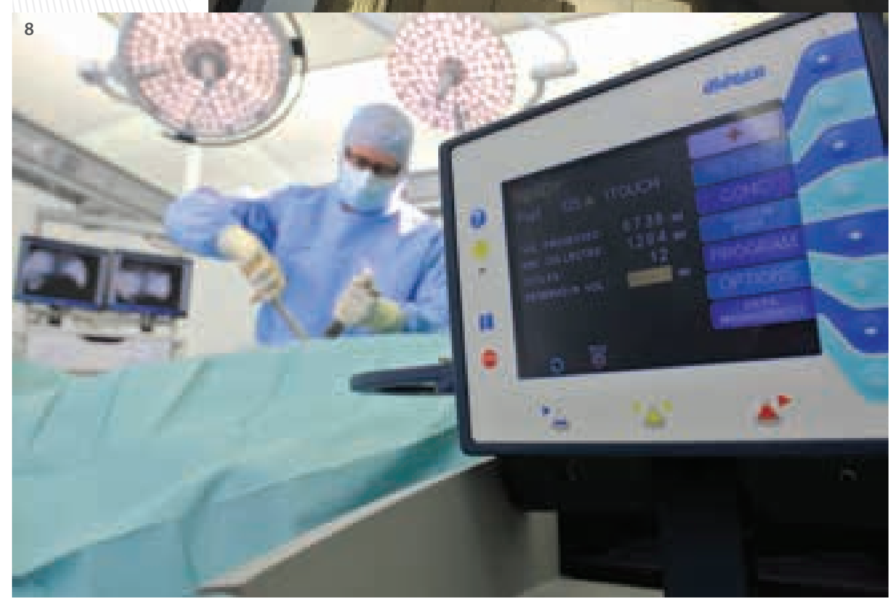


6. Royal Maternity Hospital
7. VCBank Liquidity Programme 1
8. German Orthopaedic Hospital

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. Major building and electro-mechanical works have been completed, while finishing works and final fitting out are nearing completion. Key positions such as medical director and head of nursing and midwifery have been filled, while staff have been recruited for the majority of clinical, allied health services and administrative functions. The soft opening of the hospital is expected to take place during the last quarter of 2017.

AL KHOBAR SPECIALIST HOSPITAL

VCBank has partnered with Saudi-based Al Othman Holding Company to develop a new 200-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. Construction is progressing according to plan, with grading and excavation works, and initial concrete pouring for key areas, having been completed.

THE LOUNGE

Since commencing operations in 2008 on the sixth floor of the Venture Capital Bank Building in Bahrain's Diplomatic Area, this specialist serviced offices company has made excellent progress in terms of consistent revenues, tenant retention and high occupancy levels. To meet growing demand for managed office space and secure parking, The Lounge is planning to expand its services to an additional floor; and has leased 735 parking spaces in a new multi-storey car park in the Diplomatic Area.

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, and has secured a number of promising new projects. Key developments to date include the leasing of 84 per cent of space at the Maktabi Watayah commercial complex, while the business centre with 32 offices has achieved an occupancy rate of 80 per cent. The 5-star Muscat Grand Millennium Hotel – Oman's first Shari'ah-compliant hotel – started soft operations in May 2016. In addition, leasing of the mixed-use Muttawar Omani project has achieved an occupancy level of 84 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 by the end 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.

Investment Review continued

REAL ESTATE

BRIDGEWATER & PRESTON CREEK, USA

In 2016, VCBank and its investors acquired a 90 per cent stake in a real estate portfolio consisting of two multifamily residential assets – Bridgewater and Preston Creek – in Atlanta, Georgia, USA, comprising a total of 866 units. 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. Both Bridgewater and Preston Creek have completed their renovation programmes for unit interiors, with all units having been leased and achieving budgeted rent levels. The properties have performed exceptionally well to date, and have been paying investors quarterly dividend distributions equating to the expected annual cash return of 8.5 per cent.

WESTHAVEN AT VININGS, USA

VCBank and its investors acquired a 90 per cent interest in the WestHaven at Vinings property in Atlanta, Georgia, USA in 2016. 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. It 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. WestHaven at Vinings is on track with its renovation programme for exterior and interior works, with all units having been leased and achieving budgeted rent levels. Due to its excellent performance to date, the property has been paying investors quarterly dividend distributions in line with the expected annual cash return of 8.5 per cent.

MAYFAIR CHAMBERS, UK

All six residences of this luxury property in London's Mayfair conservation area have now been sold, resulting in the full exit of the investment.

REGENT'S CRESCENT, UK

VCBank is a member 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. Now rebranded as Regent's Crescent, 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. Following receipt of planning approval from Westminster City Council, key developments to date include completion of demolition and piling, and the start of substructure and superstructure works. Pre-sales activities have also commenced.

9. Bridgewater, USA
10. Westhaven at Vinings, USA

24 BUCKINGHAM GATE, UK

In 2015, VCBank structured and advised on a transaction for a select group of investors to acquire a prime freehold residential site under redevelopment in London, UK. Situated in the heart of Westminster, 24 Buckingham Gate comprises eight luxury apartments, each occupying one whole floor; together with a luxury, two-storey penthouse. The redevelopment works have been completed, and marketing and sales activities are underway. No official offers have been received to date, but there has been particular interest in the penthouse, together with some interest to buy the property as a whole albeit at a significant discount.

ONE BAHRAIN

One Bahrain is situated on Reef Island, regarded as one of Bahrain's most exclusive and luxurious residential communities, which is just a few minutes away from Bahrain Financial Harbour, downtown Manama and the Seef shopping district. An iconic 50-storey waterfront tower, One Bahrain will be developed as an up-market Shari'ah-compliant hospitality and residential development with a host of amenities including a gym, tennis courts, swimming pools, and cafés and restaurants. The property will comprise 160 apartments for sale to end-users, and 180 professionally-managed serviced apartments for sale to individual and corporate real estate investors. Recent developments include the appointment of a contractor and commencement of piling works.

DIFAAF, BAHRAIN

This architecturally-distinguished real estate development consists of two high-rise residential towers strategically located on Reef Island, Manama, Bahrain. Following recent negotiations with the master developer regarding the revised project plan, a settlement agreement has been drafted covering all contentious technical and financial issues. A no objection certificate (NOC) is expected to be issued during the fourth quarter of 2017, after submission of final revised drawings incorporating changes requested by the master developer, with the building permit to follow within a month of receiving the NOC. The target remains for the contractor to mobilise during the fourth quarter of 2017.

GREAT HARBOUR, BAHRAIN

Great Harbour was initially established by a consortium comprising 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. Following a detailed assessment of the market and potential exit strategies, the consortium has now decided to proceed with an exit route that involves subdividing the land into 16 parcels, each measuring approximately 2,000 square metres, through which to provide an 'in-kind' return to investors. Formal preliminary approval for the subdivision of the land has been received from the relevant authorities.

Post-Acquisition

In line with its strategic realignment, VCBank has adopted a new qualitative-based approach towards the post-acquisition management of its portfolio companies. This entails a thorough analysis of the companies and their operating markets, with a focus on identifying problem assets requiring attention and the most eligible candidates for exit in the short to medium term.

To spearhead this approach, the Post-Acquisition function has been segregated from the Investment division and established as an autonomous unit reporting directly to the Chief Executive Officer. A highly-qualified private equity professional with extensive regional and international experience has been appointed to lead the team.

A key objective of the Post-Acquisition team is to maximise the value of the Bank's investment portfolio assets. This entails thoroughly understanding each asset by evaluating them on a more systematic basis with the assistance of external experts who possess the appropriate market and sector knowledge. Significantly, it involves the utilisation of sophisticated analytical techniques and international best practices that are new to the MENA region.

Such an approach will result in more realistic valuations, and assist the Post-Acquisition team in achieving another key objective, which is to identify the most appropriate exit path, and create the most effective execution plan for prime candidates.

The Post-Acquisition team will also be closely involved in the selection of new investment opportunities, working with the Investment division and other relevant departments to carefully assess the suitability and strategic fit of candidates, and ensure that they have appropriate and achievable exit paths, before the acquisition process commences.

At the beginning of FY 2017, the Board of Directors and Executive Management team took part in a two-day strategic workshop, at which all portfolio companies were subjected to thorough investment stress testing and analysis to determine the most realistic valuations. This workshop also identified those legacy projects that have been affected by financial, economic, market or geopolitical issues, and need to be revived. In addition, the most eligible candidates for immediate exit were selected and earmarked for action.

Subsequent to this workshop, the Post-Acquisition team initiated planned visits to each portfolio company. The objective is to confirm and rectify the key issues facing legacy projects that have stalled; and to manage the speedy and effective exit of identified companies.

Special projects have been undertaken with respect to certain legacy projects in need of revival and special attention, while exit processes have commenced for several key investments.

During FY 2017, the final residence of Mayfair Chambers in London, UK was sold, resulting in the full exit of this investment. Two other significant exits are currently underway. First, Goldman Sachs has been engaged to commence the sales process of Goknur Foods Import Export Trading & Distribution (Goknur), the largest fruit juice concentrate and fruit puree producer and exporter in Turkey, with a planned exit date of mid-2018. Secondly, Lazard has been re-appointed to help manage the sale of ITWorx, a leading Egyptian software outsourcing firm, with an exit planned for the end of 2017.

In May 2017, consultants were appointed to commence the sales process of Qatar Engineering & Construction Company (QCon), a leading engineering, procurement and construction (EPC) contracting company. However, the severing of relations with Qatar by Saudi Arabia, the UAE, Bahrain and Egypt in June 2017, has seriously impacted QCon's business in Abu Dhabi and Saudi Arabia; and the exit process has been put on hold until a resolution to the diplomatic crisis is reached.

The Bank is currently seeking investors who are interested in entering the defensive, anti-cyclical, healthcare sector to acquire the German Orthopaedic Hospital in Bahrain, and provide an exit for existing investors, which is planned for 2018. In addition, an exit route has been identified for Great Harbour in Bahrain, which involves subdividing the land into smaller parcels to provide an 'in-kind' return to investors. Formal preliminary approval for the subdivision of the land has been received from the relevant authorities.

Corporate Functions

HUMAN RESOURCES & SUPPORT

HUMAN RESOURCE DEVELOPMENT

Throughout the year, the Human Resources (HR) team continued to provide a friendly and personalised service to enhance the professional development, career progression and well-being of staff. To support the Bank's strategic business realignment, particular focus was placed on enhancing the core competencies of task-orientation, time management, teamwork, trust and transparency. In addition, the corporate structure was strengthened with the segregation of Investor Relations, Post-Acquisition, Cash Management and Operations, all of which now report directly to the Chief Executive Officer. VCBank continued its recruitment programme, with new appointments in the areas of Post-Acquisition, Investor Relations and Internal Audit. At the end of FY 2017, the headcount had increased to 52 employees.

The Bank maintained its investment in human resource development and training during the year. Six staff members from Financial Control, Risk Management, Internal Audit, Shari'ah Review and Post-Acquisition are currently undertaking studies to obtain relevant professional accreditations; while Approved Persons were supported with their continuous professional development (CPD) in line with requirements of the Central Bank of Bahrain. VCBank also continued to support the skills enhancement and career development of staff through relevant training courses provided by the Bahrain Institute of Banking & Finance (BIBF).

CORPORATE COMMUNICATIONS & CSR

The Corporate Communications function is responsible for maintaining the Bank's communications 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 also implements the Bank's corporate social responsibility (CSR) programme. Key CSR activities during FY 2017 included sponsorship of the Second Turkey-GCC Business & Investment Forum held in Bahrain during November 2016.

INFORMATION TECHNOLOGY

VCBank maintained its critical investment in information technology (IT) during the year, with a continued focus on enhancing the quality and security of its IT infrastructure and assets. Key developments during FY 2017 include the implementation of a new 'virtual' environment, partially covering the head office, as well as the disaster recovery site (DRS). This incorporates advanced monitoring of IT resources through 'pre-emptive alerting', and a new cloning and imaging system to provide fail-over and backup.

To support VCBank's business continuity plan, a new method of enhanced testing for the DRS was introduced. This entails daily updates, weekly checks and monthly partial testing, which are handled entirely in-house. In line with CBB regulations, penetration testing of the Bank's cyber security system was conducted by external consultants; new highly-secure and robust firewalls were installed; back-up processes were enhanced to ensure that servers do not become unavailable due to cyberattacks; and training was provided for staff by an accredited IT specialist. The first phase of a physical security upgrade of the Venture Capital Bank building was also completed. In addition, key performance indicators (KPIs) were introduced to measure the performance and responsiveness of the IT Service Desk; and new printers with enhanced security were introduced through a new purchasing concept that has almost halved the total cost of ownership (TCO).

Corporate Functions continued

INVESTOR RELATIONS

The Investor Relations department 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 regulatory requirements of the Central Bank of Bahrain (CBB). Underlining such a commitment, in FY 2017, the department was established as a standalone function reporting directly to the Chief Executive Officer, and the team was expanded.

Following a CBB directive, external consultants were appointed to assist the Bank in complying with the Common Reporting Standard (CRS), which is an information standard for the automatic exchange of tax and financial information on a global level to combat tax evasion, similar to the US Foreign Account Tax Compliance Act (FATCA). Also during the year, the Bank's client relationship management (CRM) system was further enhanced to meet the changing needs of shareholders, investors and regulators. The system features greater accuracy through utilisation of a maker and checker; and provides full automation of clients' portfolios, and semi-annual and end-year investment reports. Additional fields to cover new client assessment and documentation were added to the system in compliance with CRS requirements.

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 who 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, Wealth Management 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 2017 proved to be another challenging year, with investors adopting a more selective approach with a resultant longer decision time. Against this backdrop, the team maintained its close client relationships through regular visits across the region, keeping existing and new clients informed of the Bank's pipeline of new investment offerings which are expected to be closed next year.

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 and Tourism and embraced by the Central Bank of Bahrain. 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 which navigate the governance culture of the Bank.
3. Effective and independent Board oversight through the formation of five independent Board Committees, two ad-hoc 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).

Corporate Governance Review continued

BOARD COMMITTEES AND MEMBERSHIP

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

BOARD AD-HOC COMMITTEES & MEMBERSHIP

Board Ad-Hoc Committee	Member's Name	Member's Position
Real Estate Committee	Abdulfatah Marafie Sulaiman Al Rashid Dr. Mohammed Jumaan	Chairman Deputy Chairman Member
Exit Committee	Mohammed AlSarhan Mohammed Alkandari Adwan Aladwani	Chairman Member Member

NOMINATION & REMUNERATION COMMITTEE

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

CORPORATE GOVERNANCE COMMITTEE

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

AUDIT COMMITTEE

The 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.

DIRECTORS' ATTENDANCE JULY 2016 TO JUNE 2017

The Board of Directors and its Committees meet regularly towards fulfilling their responsibilities. A summary of the Board and its Committees meetings for FY 2017 is listed below:

Name of Director	Board Meeting	Finance & Investment Committee Meeting	Risk Committee Meeting	Audit Committee Meeting	Corporate Governance Committee Meeting	Nomination & Remuneration Committee Meeting
Dr. Ghassan Ahmed Al Sulaiman*	1 of 1c					
Abdulfatah Mohammed Rafie Marafie	5 of 5c	3 of 3c			3 of 3c	
Mohammed Abdulaziz AlSarhan	5 of 5		3 of 3			2 of 2c
Abdullatif Mohamed Janahi	5 of 5	3 of 3				
Saleh Mohammed Al Shanfari	5 of 5		3 of 3c			2 of 2
Marwan Ahmad Al Ghurair	4 of 5			4 of 4c		2 of 2
Mohammed Abdulrazzaq Alkandari	5 of 5	3 of 3				
Khalid Abdulaziz Al Mediheem	5 of 5				3 of 3	
Adwan Mohammad Aladwani	5 of 5			3 of 4		
Dr. Mohammed Ahmed Jumaan	5 of 5			4 of 4	3 of 3	
Sulaiman Abdulrahman Al Rashid	4 of 5	3 of 3				
Mohammed Saleh Al Athel	3 of 5	2 of 3				
Yasir Mohammed Al Jarullah	2 of 2		2 of 2			2 of 2

c - Denotes Chairman
* - Resigned

Corporate Governance Review continued

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 2017, 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.

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 8 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. 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

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

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

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.

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;

Corporate Governance Review continued

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.

RISK MANAGEMENT

VCBank adapts an enterprise-wide approach to manage risk, whereby it is embedded in the organisational culture, with all employees being individual owners of risks. Risk management plays a critical role in the Bank's decision-making process. The ultimate responsibility for oversight of risk management at the Bank resides with the Board of Directors, which delegates its responsibility to the Board Risk Committee. The Risk Management department, which is an independent function, reports directly to the Board Risk Committee, to which it has direct access. The department independently identifies measures, and monitors and communicates different dimensions of risk, which aim to protect the asset values and income stream, and optimise shareholders' return.

As part of the Bank's operational risk 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. 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. The Bank 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.

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. During FY 2017, the Internal Audit team was expanded.

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. During FY 2017, the Shari'ah Coordination & Review team was expanded.

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

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

GUIDANCE HC-7.2.2:

Directors' attendance and availability to answer questions from shareholders at any shareholder meeting (i.e. absence of Chairman of Nomination and Remuneration Committee).

VCBANK'S EXPLANATION:

On the 21st of December 2016, the Bank held its AGM and EGM, and due to the fact that the aforementioned meeting was subject to rescheduling, the Chairman of the Nomination and Remuneration Committee ("NRC") was not able to attend the final fixed date (i.e. the 21st of December 2016) due to a pre-arranged commitment. It Is worth mentioning that two other members of the NRC were present. The Bank took the necessary steps toward assuring that no absence is in place during future shareholders' meetings.

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.

Corporate Governance Review continued

FINANCIAL PENALTIES

During FY 2017, 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	7 December 2016	6,800
Delay in submission of external auditor's management letter on the Bank to the CBB	BR-1.1.4(a) CBB Rulebook - Volume 2	15 December 2016	4,500
Delay in submission of the AUP report concerning the completeness of disclosures required by Module PD to the CBB	BR-1.1.4(j) CBB Rulebook - Volume 2	22 December 2016	5,200
Delay in submission of reviewed (unaudited) financial statements for the quarter ended 30 September 2016	BR-3.1.6 CBB Rulebook - Volume 2	25 December 2016	2,500
Delay in publication of extracts from the Bank's reviewed financial statements for the quarter ended 30 September 2016 in two local daily newspapers, one in Arabic and the other in English	PD-3.1.4 CBB Rulebook - Volume 2	26 December 2016	4,200
Delay in submission of a soft copy of the full annual report for the financial year ended 30 June 2016 to the CBB	BR-1.1.6 CBB Rulebook - Volume 2	29 December 2016	5,900
Delay in submission of external auditor's AUP report on the Bank's PIRI for the quarter ended 30 September 2016	BR-3.1.4 CBB Rulebook - Volume 2	27 December 2016	2,700
Delay in submission of the remuneration AUP report for the year ended 30 June 2016	BR-1.1.4(l) CBB Rulebook - Volume 2	16 January 2017	4,700

BOARD AND EXECUTIVE MANAGEMENT REMUNERATION

The Nomination and Remuneration Committee (NRC) of the Board 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 resolution of 8 December 2015.

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 20,000 during the year ended 30 June 2017 (2016: USD 12,000).

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, and determining the amount and distribution of variable remuneration to employees.

In compliance with the new regulations, the CEO and his key deputies, including 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 three 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, and accordingly subject to adjustments for subsequent changes in financial performance.

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 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.

Corporate Governance Review continued

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 categorised 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.

SUMMARY OF COMPENSATION FOR THE FISCAL YEAR ENDED 30 JUNE 2017

Particulars	No.	Fixed	Variable*		Total $'000
		Upfront	*Upfront*	*Deferred*	
Members of the Board	12	438	-	-	438
Approved persons in business lines	5	1,936	-	-	1,936
Approved persons in control & support	8	948	-	-	948
Other staff	45	2,441	-	-	2,441
Total		**5,764**	**-**	**-**	**5,764**

* There was no variable remuneration for the year ended 30 June 2017. All upfront amounts applicable are in cash. Deferred amounts are converted to phantom units at current book value and paid in cash over 3-year deferral period based on applicable net book value each year.

SUMMARY OF DEFERRED COMPENSATION AS AT 30 JUNE 2017

Deferred awards	No. of units '000	NAV $	Value $'000
Opening balance	**926**	**1.18**	**1,092**
Awarded during year	-	-	-
Paid during year	(134)	1.18	(158)
Changes in value during year	-	(0.28)	(223)
Closing balance	**792**	**0.90**	**711**

SUMMARY OF COMPENSATION FOR THE FISCAL YEAR ENDED 30 JUNE 2016

Particulars	No.	Fixed	Variable		Total $'000
		Upfront	Upfront	Deferred	
Members of the Board	12	298	365	-	663
Approved persons in business lines	4	1,737	406	610	2,753
Approved persons in control & support	8	1,281	176	76	1,534
Other staff	41	2,501	232	-	2,732
Total		5,817	1,179	686	7,682

SUMMARY OF DEFERRED COMPENSATION AS AT 30 JUNE 2016

Deferred awards	No. of units '000	NAV $	Value $'000
Opening balance	405	1.13	458
Awarded during year	521	1.18	615
Paid during year	-	-	-
Changes in value during year	-	0.05	20
Closing balance	926	1.18	1,092

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.

Board remuneration is disclosed in the notes to the financial statements.

Corporate Governance Review continued

BOARD MEMBERS' PROFILES

ABDULFATAH MOHAMMED RAFIE MARAFIE
Chairman

State of Kuwait
Independent & Non-Executive Director
Elected 6 October 2005
37 years' experience

VCBank Committees: Chairman of Corporate Governance Committee; Chairman of Finance & Investment Committee; Chairman of Real Estate Committee.

Chairman & General Manager: Mozon Investment Holding Company, Morocco.

Chairman & Chief Executive Officer: Mutajara Real Estate Company, Kuwait.

Chairman: The Commercial Real Estate Company, Kuwait; The Commercial Real Estate Development Company, Bahrain; TOPSU TARIM HAYVANCILIK GIDA SANAYİ VE TİCARET ANONİM ŞİRKETİ (Turkey Farmland).

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

Board Member: Amar Finance and Leasing Company, Kuwait; Hajar Tower Real Estate Company, Kuwait; Al-Jahra Touristic Company, Kuwait; Bayan Realty Company, KSA; Goknur Foods Import Export Trading & Production Co., Turkey.

MOHAMMED ABDULAZIZ ALSARHAN
Deputy Chairman

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

VCBank Committees: Chairman of Nomination & Remuneration Committee; Chairman of Exit Committee; Deputy Chairman of Risk Committee.

Chairman: Al Safi Danone, Saudi Arabia.

Vice Chairman: National Shipping Company of Saudi Arabia.

Board Member and Senior Advisor: Al Faisaliah Group Holding, Saudi Arabia.

Board Member: Rasmala plc, UK; Saudi Fresh Dairy Board; Saudi Arabian Public Transport Company; Saudi Civil Aviation Holding; Qatar Engineering & Construction Company (QCON).

Member of Board of Trustees: Alyamama University, Riyadh, Saudi Arabia.

ABDULLATIF MOHAMED JANAHI
Board Member and Chief Executive Officer

Kingdom of Bahrain
Non-Independent and Executive Director
Elected 6 October 2005
34 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, Bahrain; Lemissoler Maritime Company, Cyprus.

Deputy Chairman: Challenger Oil Drilling Company, Libya; 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); Regent's Crescent, London, UK; Great Harbour, Bahrain; TOPSU TARIM HAYVANCILIK GIDA SANAYİ VE TİCARET ANONİM ŞİRKETİ (Turkey Farmland); The World Development Company, Dubai, UAE; Bahrain Association of Banks (BAB).

MARWAN AHMAD AL GHURAIR
Board Member

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

VCBank Committees: Chairman of Audit Committee; Member of Nomination & Remuneration Committee.

Chairman: Fanan Investments, Dubai; Semakan Holdings, Dubai; 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
29 years' experience

VCBank Committees: Chairman of Risk Committee; Member of Nomination & Remuneration Committee.

Chairman: Anaama Poultry, Oman.

Chairman of the Executive Committee: Mazoon Dairy, Oman; Global Computer Services Company, Oman.

CEO: Oman Food Investment Holding Company.

Board Member: Global Omani Investment Company; Global Mining Company, Oman; Global Gypsum Company, Oman; Global Gypsum Board Company, Oman; Omani Integrated Logistic Services; 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, Oman; Omanization Committee (AG & Fisheries).

ADWAN MOHAMMAD ALADWANI
Board Member

State of Kuwait
Non-Independent and Non-Executive Director
Elected 24 January 2016
42 years' experience

VCBank Committees: Member of Audit Committee; Member of Exit Committee.

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

Vice Chairman: The Commercial Real Estate Company, Kuwait; Bayan Realty Company, KSA; The Commercial Real Estate Development Company, Bahrain.

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

KHALID ABDULAZIZ AL MEDIHEEM
Board Member

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

VCBank Committees: Deputy Chairman of Corporate Governance Committee.

Owner & Chairman: Khalid Al Mediheem Trading Establishment, Saudi Arabia.

Co-Owner: Al Taleah Trading & Industry Company, Saudi Arabia; Arad Real Estate Company.

MOHAMMED ABDULRAZZAQ ALKANDARI
Board Member

State of Kuwait
Non-Independent and Non-Executive Director
Elected 25 April 2012
17 years' experience

VCBank Committees: Member of Finance & Investment Committee; Member of Exit Committee.

Executive Vice President - Investment: Securities Group, Kuwait.

Deputy Chairman: Gulf Energy Holdings, Kuwait; Kuwait Saudi Pharmaceutical Industries, Kuwait.

Board Member: Ajial Real Estate & Entertainment Company, Kuwait; First Investment Company, Kuwait; Technology Industrial Gases Production Company, Kuwait.

Corporate Governance Review continued

DR. MOHAMMED AHMED JUMAAN
Board Member

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

VCBank Committees: Deputy Chairman of Audit Committee; Member of Corporate Governance Committee; Member of Real Estate Committee.

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

Fellow Member: Royal Aeronautical Society (FRAeS); British Computer Society (FBCS).

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
11 years' experience

VCBank Committees: Deputy Chairman of Finance & Investment Committee; Deputy Chairman of Real Estate Committee.

CEO: Abdulrahman Saad Al Rashid & Sons Company, Saudi Arabia.

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

MOHAMMED SALEH AL-ATHEL
Board Member

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

VCBank Committees: Member of Finance & Investment Committee.

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

YASIR MOHAMMED AL JARULLAH
Board Member

Kingdom of Saudi Arabia
Independent and Non-Executive Director
Appointed 25 April 2012 and re-appointed 5 December 2016
14 years' experience

VCBank Committees: Member of Nomination & Remuneration Committee; Member of Risk Committee.

Co-Founder & Chief Executive Officer: Tharwaa Investments, Dubai.

Board Member: Bin Jarullah Holding Company, Saudi Arabia; Al-Inma Medical Services, Saudi Arabia; Tharwaa Investments, Dubai; Tharwaa Escan Investments, Dubai.

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
34 years' experience

Abdullatif Janahi is one of the originators and key founders of VCBank, where he has been a Board Member and Chief Executive Officer since inception. Previously, he was one of the key founders and a Director of the Incorporating Committee of International Investment Bank, a Bahrain-based Shari'ah-compliant wholesale bank. Prior to that, Abdullatif 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
18 years' experience

Faisal 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. Previously, he worked in the Direct Investment Group at Kuwait Finance House-Bahrain; and the Investment Division of BBK, a pioneering retail bank in the Kingdom of Bahrain. Faisal holds a BSc degree in Accounting from the University of Bahrain.

ROBERT C. WAGES, CFA, CAIA, FRM
Senior Executive Director - Head of Post-Acquisition

Member of Executive Management Committee
Joined VCBank in 2017
32 years' experience

Robert Wages has extensive experience in sourcing, executing and managing institutional direct private equity investments across multiple industry sectors spanning the US, Europe, MENA and Asia. Prior to joining VCBank, he was Managing Director of US-based Gazelle Capital Investors, a consulting firm advising family investment offices. Before this, Robert was Head of Private Equity with Emirates International Investment Company, the proprietary investment arm of National Holding, Abu Dhabi, UAE; and Executive Director, Private Equity at the government-owned Abu Dhabi Investment Company (Invest AD). Previously, he spent 17 years with Castle Harlan, a leading New York-based middle market buyout firm, where he rose from an Associate to Managing Director. Robert holds a Master's degree in Computational Finance and Risk Management from the University of Washington, USA; and a Bachelor's degree in Chemistry from Princeton University, USA. He is a Chartered Financial Analyst, Chartered Alternative Investment Analyst, and Financial Risk Manager.

Corporate Governance Review continued

SANTHOSH JACOB KARIPAT, FCA

Executive Director - Head of Financial Control

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

Santhosh Karipat has extensive experience in accounting and finance, investment analysis and valuations, auditing, internal controls and risk management gained from his time 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, 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 Fellow of the Institute of Chartered Accountants in England & Wales, he 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.

JEHAD HASAN QAMBER

Director - Head of Human Resources & Support

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

Jehad Qamber has extensive experience in the areas of human resources, finance and investment banking. Before assuming his current position in 2016, he was a Director in the Bank's Wealth Management Division. Prior to joining VCBank, he 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. Jehad holds a Master's degree in Business Administration from the University of Glamorgan, Wales, UK.

ABDULRAHIM MAHMOOD ALSAEEDI

Director - Acting Head of Wealth Management

Member of Executive Management Committee
Joined VCBank in 2007 and then rejoined in 2015
27 years' experience

Abdulrahim Alsaeedi has extensive experience in both the public and private sectors, with over 18 years spent in accounting and investment banking. Having originally served as Director, Investment Placement with Venture Capital Bank from 2007 to 2009, where he was responsible for Oman and Qatar, he rejoined the Bank's Wealth Management team in 2015 and was promoted to his current position in 2017. Prior to this, Abdulrahim was Executive Director, Head of Investment Placement, at Bahrain-based Tharawat Investment House. Previously, he spent nine years with the Ministry of Industry & Commerce of the Kingdom of Bahrain, where he held several positions including Assistant Undersecretary for Resources and Services, and Acting CEO of the Bahrain Convention and Exhibition Bureau. Abdulrahim holds a Bachelor's degree in Accounting & Auditing from the University of Cairo, Egypt; and a Diploma in Accounting from the University of Bahrain. He attended the Gulf Executive Development Program at the Darden School of Business, University of Virginia, USA.

ASYA HASAN, CPA

Director - Head of Internal Audit

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

Asya Hasan has extensive experience in the field of audit and accounting professional practices. She is specialised in attest of sovereign lending, and conducting financial safeguard assurance of central banks' borrowing from international financial institutions and monetary funds to finance governments' fiscal deficits and support balance of payments. Before joining VCBank, she was a senior member of the Finance Department at the Arab Monetary Fund (AMF), where she was in charge of lending to member states of the Fund. Prior to this, Asya was a staff member of the International Monetary Fund (IMF), where she was responsible for conducting financial safeguards assessment of central banks of IMF borrowing members. Before joining international financial institutions, she was a Senior Audit Manager with Ahli United Bank, a Senior Bank Examiner at the Central Bank of Bahrain, and a Senior Auditor in the Financial Services Industry division of Ernst & Young. Asya is a Licensed Certified Public Accountant (CPA) by the California Board of Accountancy; and 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.

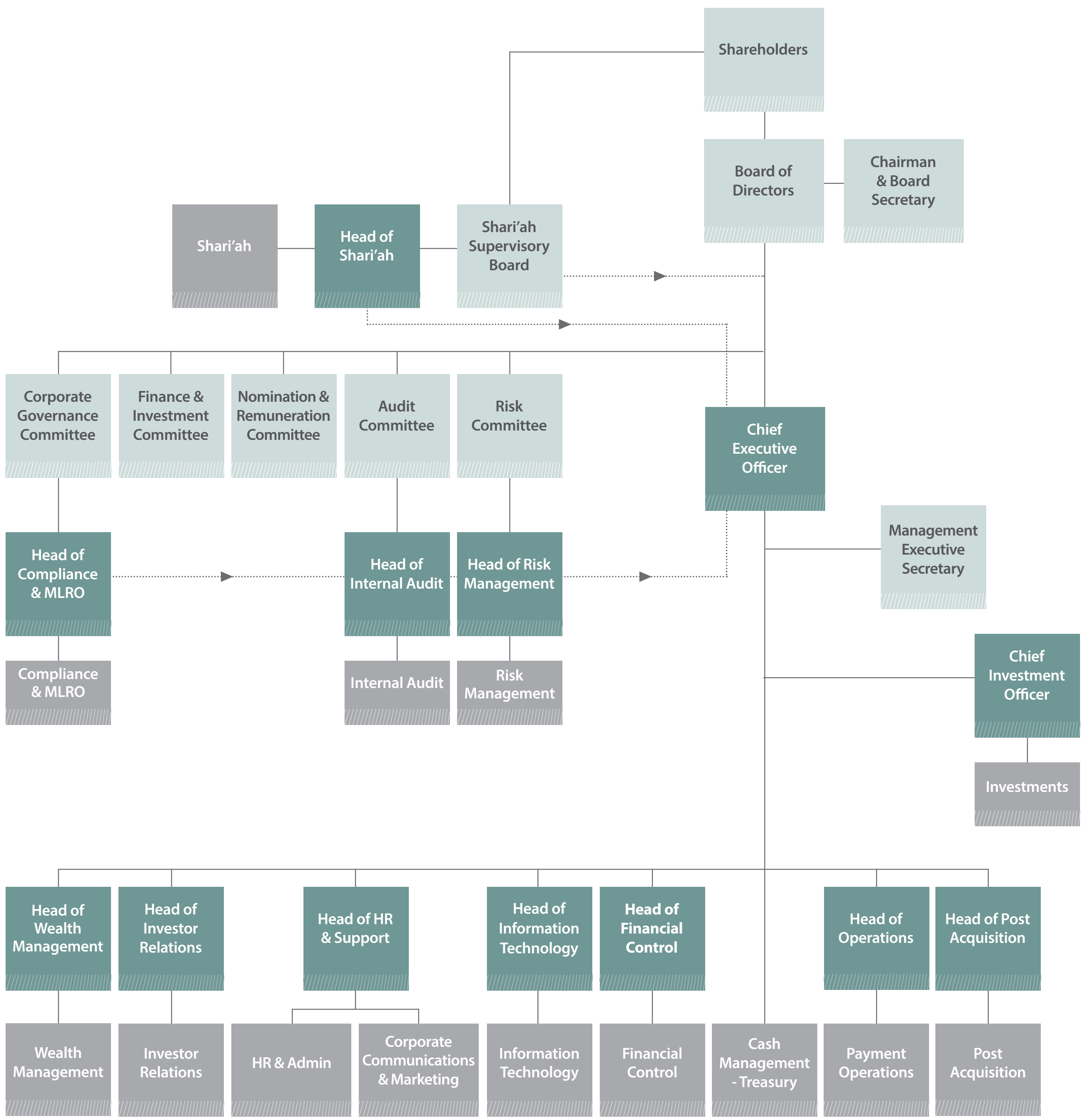
KHALID A. JALIL AL MADANI, CIPA

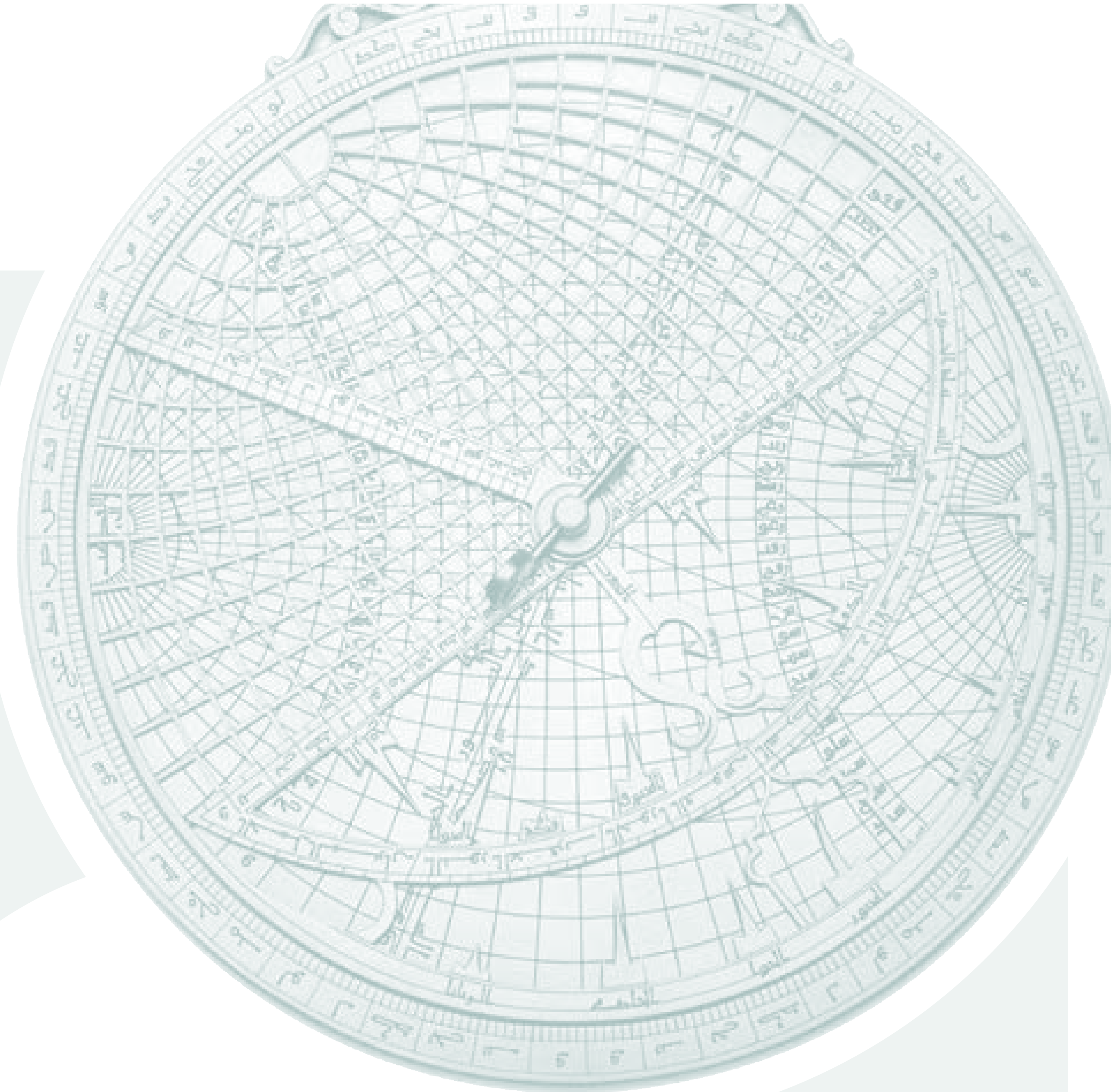
Director - Head of Compliance and MLRO

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

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 holds the CIPA designation from the AAOIFI; a Certified Anti-Money Laundering Specialist (CAMS) credential issued by the Association of Certified Anti-Money Laundering Specialists; and an ICA International Diploma in Compliance awarded in association with Manchester Business School, University of Manchester, UK. He also holds a Professional Certificate in Compliance (MCP) designation by the International Academy of Financial Management. Khalid obtained his BSc degree in Accounting from the University of Bahrain.

Governance and Organisation Structure





During the year, VCBank continued to fine tune its organisational structure in line with industry best practice and regulatory requirements of the Central Bank of Bahrain.

Financial Statements
Contents

VENTURE CAPITAL BANK

In the name of Allah, the Merciful, the Compassionate

Report of the Shari'ah Supervisory Board for period from 01/07/2016 to 30/06/2017

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 01/07/2016 to 30/06/2017

It has studied and discussed, with the Bank's management, the financial statements and the income statement for the period from 01/07/2016 to 30/06/2017

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 Sharia'h, The SSB also directed the bank to exit some historical investments, in which found non-Sariah compliance, knowing that those investments are old and not new, Furthermore the SSB has reviewed the actions to modify it and approved it.

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 Tuesday, 06/01/1439 H, corresponding to the 26/09/2017

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

Report of the Auditors

Independent Auditors' Report to the Shareholders of Venture Capital Bank B.S.C. (c)

Report on the consolidated financial statements

We have audited the accompanying consolidated statement of financial position of Venture Capital Bank B.S.C. (c) (the "Bank") and its subsidiaries (the "Group") as of 30 June 2017, 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 2017, 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 2017 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
27 September 2017
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

As at 30 June 2017

	Note	30 June 2017 USD '000	30 June 2016 USD '000
ASSETS			
Balances and placements with banks	8	**7,571**	8,282
Investments	9	**161,354**	188,255
Investments in associates and joint venture accounted under the equity method	10	**26,960**	28,046
Murabaha financing to investee companies	11	**34,750**	40,993
Receivables	12	**16,630**	38,030
Funding to project companies	13	**-**	4,231
Other assets	14	**27,610**	18,030
Property and equipment	15	**8,077**	8,434
TOTAL ASSETS		**282,952**	334,301
LIABILITIES			
Islamic financing payables	16	**101,674**	101,734
Employee accruals		**2,723**	3,746
Other liabilities	17	**7,910**	4,527
Total liabilities		**112,307**	110,007
EQUITY			
Share capital	18	**190,000**	190,000
Statutory reserve	18	**5,859**	5,859
Foreign currency translation reserve		**(130)**	(127)
(Accumulated losses) / retained earnings		**(25,084)**	28,562
Total equity		**170,645**	224,294
TOTAL LIABILITIES AND EQUITY		**282,952**	334,301
OFF BALANCE SHEET ITEMS			
Equity of investment account holders		**2,744**	3,756

Abdulfatah Mohd. Rafie Marafie
Chairman

Abdullatif M. Janahi
Board Member
and Chief Executive Officer

Consolidated Statement of Income
For the year ended 30 June 2017

	Note	30 June 2017 USD '000	30 June 2016 USD '000
REVENUE			
Income from investment banking services	19	**4,795**	31,126
Finance income	20	**12**	128
Dividend income		**834**	837
Rental and other income	21	**2,945**	4,550
Total revenue		**8,586**	36,641
OTHER (LOSSES) GAINS			
Fair value losses on investments at fair value through profit or loss	22	**(38,266)**	(17,508)
Gains from sale of investments	23	**-**	6,397
Total (loss) income		**(29,680)**	25,530
EXPENSES			
Staff costs	24	**6,194**	8,066
Travel and business development expenses		**529**	575
Legal and professional fees		**1,357**	903
Finance expense	20	**6,141**	3,047
Depreciation	15	**413**	477
Other expenses	26	**3,978**	3,101
Total expenses		**18,612**	16,169
(LOSS) / PROFIT BEFORE IMPAIRMENT PROVISIONS AND SHARE OF LOSSES OF ASSOCIATES AND JOINT VENTURE		**(48,292)**	9,361
Impairment provisions charged	25	**(6,448)**	(3,005)
Recovery of impaired receivables	25	**1,344**	3,690
Share of losses of associates and joint venture - net	10	**(250)**	(402)
(LOSS) / PROFIT BEFORE BOARD OF DIRECTORS' REMUNERATION		**(53,646)**	9,644
Board of Directors' remuneration	28	**-**	(365)
NET (LOSS) / PROFIT FOR THE YEAR AFTER BOARD OF DIRECTORS' REMUNERATION		**(53,646)**	9,279

Abdulfatah Mohd. Rafie Marafie
Chairman

Abdullatif M. Janahi
Board Member
and Chief Executive Officer

The attached notes 1 to 37 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity
For the year ended 30 June 2017

	Note	Share capital USD '000	Unvested shares of employee share ownership plan USD '000	Statutory reserve USD '000	Foreign currency translation reserve USD '000	(Accumulated losses) / Retained earnings USD '000	Total USD '000
Balance at 1 July 2016		190,000	-	5,859	(127)	28,562	224,294
Net loss for the year		-	-	-	-	(53,646)	(53,646)
Foreign currency translation difference on investment in an associate		-	-	-	(3)	-	(3)
Balance at 30 June 2017		**190,000**	**-**	**5,859**	**(130)**	**(25,084)**	**170,645**
Balance at 1 July 2015		190,000	(10,000)	4,931	(175)	34,711	219,467
Cancellation of ESOP shares and issue of bonus shares	18c,18d & 27	-	10,000	-	-	(10,000)	-
Dividends for 2015		-	-	-	-	(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

The attached notes 1 to 37 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows
For the year ended 30 June 2017

	Note	30 June 2017 USD '000	30 June 2016 USD '000
OPERATING ACTIVITIES			
Net (loss) profit for the year		**(53,646)**	9,279
Adjustments for non-cash items:			
Gain on investments	23	**-**	(6,397)
Share of results of associates and joint venture accounted under the equity method	10	**250**	402
Impairment provisions charged - net	25	**6,448**	3,005
Depreciation	15	**413**	477
Dividend income		**(834)**	(837)
Fair value losses on investments at fair value through profit or loss - net	22	**38,266**	17,508
Operating (loss) profit before changes in operating assets and liabilities		**(9,103)**	23,437
Changes in operating assets and liabilities:			
Investments		**(16,453)**	(36,713)
Investments in associates and joint venture accounted under the equity method		**616**	(632)
Murabaha financing to investee companies		**6,243**	(40,993)
Receivables		**20,429**	(11,529)
Funding to project companies		**4,231**	9,033
Other assets		**(10,051)**	(11,306)
Employee accruals		**(1,023)**	(2,385)
Other liabilities		**3,383**	(684)
Net cash used in operating activities		**(1,728)**	(71,772)
INVESTING ACTIVITIES			
Dividends received		**1,136**	137
Dividends paid	18	**-**	(4,500)
Property and equipment - net	15	**(56)**	(78)
Net cash from (used in) investing activities		**1,080**	(4,441)
FINANCING ACTIVITY			
Islamic financing payables		**(60)**	81,723
Net cash (used in) from financing activity		**(60)**	81,723
Foreign currency translation adjustments		**(3)**	48
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(711)**	5,558
Cash and cash equivalents at beginning of the year		**8,282**	2,724
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**7,571**	8,282
Comprising:			
Balances in current and call accounts	8	**7,441**	8,155
Short-term placements	8	**130**	127
		7,571	8,282

The attached notes 1 to 37 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 2017

2017	**Balance as at 1 July 2016 USD '000**	**Movements during the year** Distribution USD '000	Fair value movement / (impairment) USD '000	Net (loss) / profit USD '000	Bank's fees as an agent USD '000	**Balance as at 30 June 2017 USD '000**
GCC Pre IPO Fund	**3,756**	**(156)**	**(32)**	**(824)**	**-**	**2,744**

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

	2017 USD '000	2016 USD '000
Investment in equities	**2,742**	3,754
Balances with banks	**2**	2
Total as at 30 June	**2,744**	3,756

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. The investments are legally owned by the Group for the benefitial interest of RIA. 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 37 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements
As at 30 June 2017

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, Commerce and Tourism. 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 10 July 2017.

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.

Notes to the Consolidated Financial Statements
As at 30 June 2017

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 36 and 37.

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 July 2016
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 July 2016 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 2017

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.

Notes to the Consolidated Financial Statements
As at 30 June 2017

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.

Notes to the Consolidated Financial Statements
As at 30 June 2017

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.

Notes to the Consolidated Financial Statements
As at 30 June 2017

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Cash and cash equivalents

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

(i) Property and equipment

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

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

(j) Impairment of non-financial assets

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

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

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

(k) Islamic financing payable

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

(l) Financial guarantees

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

(m) Dividends

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.

Notes to the Consolidated Financial Statements
As at 30 June 2017

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

(q) Off-balance sheet equity of investment account holders
Off-balance sheet equity of investment account holders represent assets acquired using funds provided by holders of restricted investment accounts and managed by the Group as an investment manager based on a mudaraba 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.

Notes to the Consolidated Financial Statements
As at 30 June 2017

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Employee benefits

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

(ii) Post employment benefits
Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organization (SIO) scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Bank are recognised as an expense in the consolidated statement of income. The Bank's obligations are limited to these contributions, which are expensed when due.

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

(iii) Share based payment transactions
The Group 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 last year (refer note 27).

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

(t) Segment reporting
The Group primarily operates as an investment bank and its lines of business comprise venture capital, private equity and real estate. At present the Group's revenue is reviewed by lines of business and the expenses and results are reviewed at a Group level and therefore no separate operating segment results and other disclosures are provided in these consolidated financial statements.

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

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

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

Notes to the Consolidated Financial Statements
As at 30 June 2017

6 INVESTMENT IN SUBSIDIARIES

Key subsidiaries of the Group which are consolidated 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 Venture Capital 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 during the year).
The Lounge Serviced Offices Company W.L.L.	2007	Kingdom of Bahrain	To own, operate and manage serviced offices in Bahrain and regionally.

7 CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

At 30 June 2017	*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	-	-	7,571	7,571
Investments	105,614	55,740	-	161,354
Murabaha financing to investee companies	-	-	34,750	34,750
Receivables	-	-	16,630	16,630
Other assets	-	-	26,828	26,828
TOTAL FINANCIAL ASSETS	105,614	55,740	85,779	247,133
LIABILITIES				
Islamic financing payables	-	-	101,674	101,674
Other liabilities	-	-	4,825	4,825
TOTAL FINANCIAL LIABILITIES	-	-	106,499	106,499
OFF BALANCE SHEET ITEMS				
Equity of investment account holders	-	2,742	2	2,744

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

Notes to the Consolidated Financial Statements
As at 30 June 2017

8 BALANCES AND PLACEMENTS WITH BANKS

	30 June 2017 USD '000	*30 June 2016 USD '000*
Balances in current and call accounts	7,441	8,155
Short-term placement	131	133
Less: Deferred profits	(1)	(6)
	7,571	8,282

Short-term placement comprises mudaraba deal with a locally incorporated Islamic bank at a profit rate of 1.5% (2016: 1.5%) and maturing within 90 days of initial placement.

9 INVESTMENTS

	30 June 2017 USD '000	*30 June 2016 USD '000*
Investments at fair value through profit or loss		
Quoted equities held for trading	4,582	5,038
Unquoted:		
Equities	93,398	103,748
Fund	7,634	14,234
	105,614	123,020
Available-for-sale investments ("AFS")		
Quoted equities	1,305	1,380
Unquoted equities	47,315	48,915
Short term liquidity certificates	7,120	14,940
	55,740	65,235
	161,354	188,255

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 2017 USD '000	*30 June 2016 USD '000*
Real estate projects	25,822	32,768
Business development projects	12,761	14,152
Healthcare projects	14,080	14,080
Financial services	1,772	2,855
	54,435	63,855

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

Notes to the Consolidated Financial Statements
As at 30 June 2017

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

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

			% holding	
Name of associate	***Nature of business***	***Country of incorporation***	***30 June 2017***	*30 June 2016*
Mozon Holding SA	Investment development	Kingdom of Morocco	**20**	20
German Medical Centre Bahrain *	Specialist orthopedic hospital	Kingdom of Bahrain	**50.59**	30
Dari Holdings	Real estate development	Kingdom of Bahrain	**43**	43
Venture Capital Fund Bahrain	Small & medium enterprises investment fund	Kingdom of Bahrain	**30**	30

			% holding	
Name of joint venture	***Nature of business***	***Country of incorporation***	***30 June 2017***	*30 June 2016*
Global Real Estate Co. W.L.L.	Real estate development	Kingdom of Bahrain	**50**	50

The carrying value comprises:	***30 June 2017 USD '000***	*30 June 2016 USD '000*
Associates	**2,084**	3,331
Joint venture	**24,876**	24,715
	26,960	28,046

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

	30 June 2017 USD '000	*30 June 2016 USD '000*
At 1 July	**28,046**	27,816
Capitalisation of funding**	**302**	584
Foreign currency differences	**(2)**	48
Recalssified as investment in subsidiary at fair value through profit and loss*	**(916)**	-
Impairment provisions charged	**(220)**	-
Share of losses of associates and joint venture, net	**(250)**	(402)
At 30 June	**26,960**	28,046

* During the year, the Group increased its investment in German Medical Centre Bahrain from 30% to 50.59% resulting in it becoming a subsidiary with effect from 30 September 2016. The Group carries this investment at fair value through profit or loss as allowed by IFRS 10.

** 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:

Notes to the Consolidated Financial Statements
As at 30 June 2017

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

	30 June 2017 USD '000	*30 June 2016 USD '000*
Total assets	**77,459**	80,539
Total liabilities	**22,664**	24,505
Total revenues for the year	**345**	1,080
Total net loss for the year	**(233)**	(508)

11 MURABAHA FINANCING TO INVESTEE COMPANIES

	30 June 2017 USD '000	*30 June 2016 USD '000*
Financing to an investee companies in the following sectors:		
Shipping	**34,750**	34,750
United Kingdom real estate	**-**	6,243
At 30 June	**34,750**	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 2017 USD '000	*30 June 2016 USD '000*
Receivable from investment banking services	**11,031**	32,984
Receivable on sale of investment	**10,167**	9,167
	21,198	42,151
Less: Specific impairment provision	**(4,568)**	(4,121)
	16,630	38,030

Refer to note 25 for movement in impairment provision.

13 FUNDING TO PROJECT COMPANIES

	30 June 2017 USD '000	*30 June 2016 USD '000*
Gross funding	**12,067**	19,780
Less: Impairment provision	**(12,067)**	(15,549)
	-	4,231

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.

Notes to the Consolidated Financial Statements
As at 30 June 2017

14 OTHER ASSETS

	30 June 2017 USD '000	30 June 2016 USD '000
Advances to acquire investments	**25,232**	13,616
Project costs recoverable	**1,871**	1,899
Dividend receivable	**522**	824
Other receivables	**4,442**	4,320
Less: Impairment provision	**(4,457)**	(2,629)
	27,610	18,030

Refer to note 25 for movement in impairment provision.

15 PROPERTY AND EQUIPMENT

	Building USD '000	Office equipment USD '000	Furniture and fixtures USD '000	Motor vehicles USD '000	Total USD '000
Cost					
At 1 July 2016	10,098	1,771	4,697	502	17,068
Additions during the year	-	33	-	23	56
Disposal	-	-	-	(29)	(29)
At 30 June 2017	**10,098**	**1,804**	**4,697**	**496**	**17,095**
Depreciation					
At 1 July 2016	1,810	1,669	4,697	458	8,634
Charge for the year	278	95	-	40	413
Disposal	-	-	-	(29)	(29)
At 30 June 2017	**2,088**	**1,764**	**4,697**	**469**	**9,018**
Net book value at 30 June 2017	**8,010**	**40**	**-**	**27**	**8,077**
Net book value at 30 June 2016	8,288	102	-	44	8,434

16 ISLAMIC FINANCING PAYABLES

		30 June 2017 USD '000	30 June 2016 USD '000
Medium term Islamic financing payables	16.1	**70,687**	70,687
Short term Islamic financing payables	16.2	**30,987**	31,047
		101,674	101,734

16.1 This represents a medium term wakala financing raised in January 2016 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 from the financing raising date.

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 2.75% (2016: 3.5%).

Notes to the Consolidated Financial Statements
As at 30 June 2017

17 OTHER LIABILITIES

	30 June 2017 USD '000	30 June 2016 USD '000
Accounts payable	**4,825**	1,473
Provisions and accruals	**1,552**	1,511
Deferred income	**1,272**	1,351
Other	**261**	192
	7,910	4,527

18 SHARE CAPITAL

	30 June 2017 USD '000	30 June 2016 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 (2016: 190,000,000 shares of USD 1 each)	**190,000**	190,000

a) Statutory reserve
The Bahrain Commercial Companies Law and the Bank's articles of association requires that 10% of the profit for the year shall be transferred to a statutory reserve. Since the Bank incurred a net loss for the year, there has been no transfer to statutory reserve made for the year (2016: USD 928 thousand). The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

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
During the year ended 30 June 2016, the Group has cancelled the employee share ownership plan following a resolution of the shareholders.

d) Cash and share dividends
During the year, the Group did not declare or pay dividends in respect of the year ended 30 June 2016. 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 for the year ended 30 June 2015.

19 INCOME FROM INVESTMENT BANKING SERVICES

	30 June 2017 USD '000	30 June 2016 USD '000
Investment structuring income	**-**	26,350
Investment management and arrangement fees	**4,795**	4,776
	4,795	31,126

Notes to the Consolidated Financial Statements
As at 30 June 2017

20 FINANCE INCOME AND EXPENSE

	30 June 2017 USD '000	30 June 2016 USD '000
Finance income		
Income from placements with financial institutions	**12**	128
Finance expense		
Cost of Islamic financing payables	**(6,141)**	(3,047)
Net finance expense	**(6,129)**	(2,919)

21 RENTAL AND OTHER INCOME

	30 June 2017 USD '000	30 June 2016 USD '000
Rental and property management income	**1,621**	1,901
Collective impairment provision released (note 25)	**-**	1,306
Write back of excess liabilities upon ESOP unwinding (note 18 c)	**-**	416
Other income	**1,324**	927
	2,945	4,550

Other income mainly comprises liquidity program certificate profit (2016: cost recoveries and write back of excess accruals).

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

	30 June 2017 USD '000	30 June 2016 USD '000
Trading securities	**(456)**	(459)
Investments designated at fair value through profit or loss - net	**(37,810)**	(17,049)
	(38,266)	(17,508)

23 GAINS FROM SALE OF INVESTMENTS

	30 June 2017 USD '000	30 June 2016 USD '000
Gain on sale of available-for-sale investments - net	**-**	4,020
Gain on sale of investment designated at fair value through profit or loss	**-**	2,377
	-	6,397

24 STAFF COSTS

	30 June 2017 USD '000	30 June 2016 USD '000
Salaries and benefits	**5,727**	7,625
Social insurance expenses	**406**	408
Other staff expenses	**61**	33
	6,194	8,066

Notes to the Consolidated Financial Statements
As at 30 June 2017

25 IMPAIRMENT PROVISIONS CHARGED

	Specific impairment provisions relating to						
30 June 2017	**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 14) USD '000**	**Total USD '000**
Provision at the beginning of the year	(17,966)	(5,173)	(4,121)	(14,187)	(2,629)	(1,362)	**(45,438)**
Impairment provisions charged	**(4,786)**	**(220)**	**(971)**	-	**(471)**	-	**(6,448)**
Recovery during the year	-	-	524	820	-	-	**1,344**
Release of provision related to investments derecognised	-	-	-	1,300	-	-	**1,300**
Write-offs	-	-	-	-	5	-	**5**
Provision at the end of the year	**(22,752)**	**(5,393)**	**(4,568)**	**(12,067)**	**(3,095)**	**(1,362)**	**(49,237)**

* Collective impairment provision relates to other assets (refer to note 14).

	Specific impairment provisions relating to						
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 14) USD '000*	*Total USD '000*
Provision at the beginning of the period	(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)
Release from collective impairment provision	-	-	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).

Notes to the Consolidated Financial Statements
As at 30 June 2017

26 OTHER EXPENSES

	30 June 2017 USD '000	*30 June 2016 USD '000*
Rent and office expenses	**1,763**	1,708
Publicity, conferences and promotion	**125**	162
Board of directors and Shari'a supervisory board fees and expenses	**539**	571
Exchange loss	**283**	574
Regulatory penalties	**97**	31
Project management costs	**1,157**	42
Other	**14**	13
	3,978	3,101

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. 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.

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

	30 June 2017		*30 June 2016*	
	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
Cancelled during the year	-	-	(6,423)	-
Dividends credited	-	-	-	-
Settlement of participants dues	-	-	-	(2,885)
Write back	-	-	-	(416)
Balance at end of year	-	-	-	-

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.

Notes to the Consolidated Financial Statements
As at 30 June 2017

28 RELATED PARTY TRANSACTIONS (continued)

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

30 June 2017	*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*	*Total USD '000*
Assets				
Balances and placements with banks	-	-	512	**512**
Investments	19,838	-	7,634	**27,472**
Investments in associates and joint venture accounted under the equity method	26,960	-	-	**26,960**
Murabaha financing to investee companies	34,750	-	-	**34,750**
Receivables	-	-	-	**-**
Funding to project companies	-	-	-	**-**
Other assets	5,414	-	684	**6,098**
Liabilities				
Employee accruals	-	1,503	-	**1,503**
Other liabilities	-	-	360	**360**
Income				
Income from investment banking services	-	-	-	**-**
Share of loss of associates and joint venture accounted for using the equity method	(250)	-	-	**(250)**
Other income	-	-	718	**718**
Expenses (excluding compensation for key management personnel)				
Impairment allowances against investments	-	-	-	**-**
Impairment allowances against receivables	717	-	-	**717**
Commitments and contingencies	18,726	-	-	**18,726**

Notes to the Consolidated Financial Statements
As at 30 June 2017

28 RELATED PARTY TRANSACTIONS (continued)

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*	*Total USD '000*
Assets				
Balances and placements with banks	-	-	733	733
Investments	40,815	-	14,234	55,049
Investments in associates and joint venture accounted under the equity method	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	-	1,051	-	1,051
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 receivables	1,182	-	-	1,182
Commitments and contingencies	20,829	-	-	20,829

Notes to the Consolidated Financial Statements
As at 30 June 2017

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 2017 Number of Shares*	*30 June 2017 Number of Directors*	*30 June 2016 Number of Shares*	*30 June 2016 Number of Directors*
Less than 1%	**5,952,312**	**7**	6,954,411	7
1% up to less than 5%	**16,654,724**	**4**	19,624,012	5
5% and less than 10%	**25,179,616**	**2**	23,635,104	2
	47,786,652	**13***	50,213,527	14*

** One director representing a corporate shareholder also holds a personal ownership of 1.19% (2016: Two directors also with personal ownership of 1.03% & 1.12%), hence total directors for the year ended 2017 were 12 directors (2016: 12 directors).*

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

Compensation of directors and key management personnel are as follows:

	30 June 2017 USD '000	*30 June 2016 USD '000*
Board of directors' attendance fees	**342**	338
Board of directors' remuneration	-	365
Salaries and other short-term benefits	**1,699**	1,604
	2,041	2,307

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 four vessels.

Board of Directors' remuneration
No board remuneration is proposed for the years 2017 and 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 was accordingly 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 2017 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 2017 is US cents nil for every share held (2016: US cents 0.262 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.

Notes to the Consolidated Financial Statements
As at 30 June 2017

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 (2016: 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 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 36 (c).

30 June 2017	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	No fixed maturity USD '000	Total USD '000
Assets								
Balances and placements with banks	7,571	-	-	7,571	-	-	-	**7,571**
Investments	-	-	7,120	7,120	-	-	154,234	**161,354**
Investments in associates and joint venture accounted under the equity method	-	-	-	-	-	-	26,960	**26,960**
Murabaha financing to investee companies	-	-	-	-	34,750	-	-	**34,750**
Receivables	10,247	2,790	768	13,805	2,825	-	-	**16,630**
Funding to project companies	-	-	-	-	-	-	-	**-**
Other assets	1,230	12,074	466	13,770	14	11	13,815	**27,610**
Property and equipment	-	-	-	-	-	-	8,077	**8,077**
Total assets	**19,048**	**14,864**	**8,354**	**42,266**	**37,589**	**11**	**203,086**	**282,952**
Liabilities								
Islamic financing payables	30,987	-	-	30,987	70,687	-	-	**101,674**
Employee accruals	-	-	-	-	457	-	2,266	**2,723**
Other liabilities	5,048	687	141	5,876	369	1,630	35	**7,910**
Total liabilities	**36,035**	**687**	**141**	**36,863**	**71,513**	**1,630**	**2,301**	**112,307**
Net liquidity gap	**(16,987)**	**14,177**	**8,213**	**5,403**	**(33,924)**	**(1,619)**	**200,785**	**170,645**
Cumulative liquidity gap	**(16,987)**	**(2,810)**	**5,403**	**5,403**	**(28,521)**	**(30,140)**	**170,645**	**170,645**
Commitments and contingencies	**-**	**752**	**3,896**	**4,648**	**15,063**	**-**	**10,000**	**29,711**

Notes to the Consolidated Financial Statements
As at 30 June 2017

32 MATURITY PROFILE (continued)

30 June 2016	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	No fixed maturity USD '000	Total USD '000
Assets								
Balances and placements with banks	8,282	-	-	8,282	-	-		8,282
Investments	6,840	-	8,100	14,940	-	-	173,315	188,255
Investments in associates and joint venture accounted under the equity method	-	-	-	-	-	-	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	9,914	5,592	909	16,415	1,012	265	338	18,030
Property and equipment	-	-	-	-	-	-	8,434	8,434
Total assets	41,221	29,615	9,009	79,845	9,308	35,015	210,133	334,301
Liabilities								
Islamic financing payables	31,047	-	-	31,047	70,687	-	-	101,734
Employee accruals	-	1,500	-	1,500	-	-	2,246	3,746
Other liabilities	1,842	518	141	2,501	362	1,630	34	4,527
Total liabilities	32,889	2,018	141	35,048	71,049	1,630	2,280	110,007
Net liquidity gap	8,332	27,597	8,868	44,797	(61,741)	33,385	207,853	224,294
Cumulative liquidity gap	8,332	35,929	44,797	44,797	(16,944)	16,441	224,294	224,294
Commitments and contingencies	30,524	7,040	-	37,564	920	-	-	38,484

Notes to the Consolidated Financial Statements
As at 30 June 2017

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

a) Industry sector

30 June 2017	*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	-	7,571	-	-	-	-	-	-	**7,571**
Investments	10,639	13,684	44,455	5,460	19,002	1,107	4,929	62,078	**161,354**
Investment in associates and joint venture accounted under the equity method	-	-	24,876	-	-	-	-	2,084	**26,960**
Murabaha financing to investee companies	-	-	-	-	-	-	34,750	-	**34,750**
Receivables	-	80	2,618	-	290	-	-	13,642	**16,630**
Funding to project companies	-	-	-	-	-	-	-	-	**-**
Other assets	5,414	20	10,247	-	13	-	-	11,916	**27,610**
Property and equipment	-	-	7,597	-	-	-	-	480	**8,077**
Total assets	**16,053**	**21,355**	**89,793**	**5,460**	**19,305**	**1,107**	**39,679**	**90,200**	**282,952**
Liabilities									
Islamic financing payable	-	30,040	-	-	-	-	-	71,634	**101,674**
Employee accruals	-	-	-	-	-	-	-	2,723	**2,723**
Other liabilities	-	-	-	-	-	-	-	7,910	**7,910**
Total liabilities	**-**	**30,040**	**-**	**-**	**-**	**-**	**-**	**82,267**	**112,307**
Commitments and contingencies (note 35)	**17,363**	**10,000**	**1,304**	**-**	**1,044**	**-**	**-**	**-**	**29,711**
Equity of investment account holders	**-**	**2,298**	**-**	**-**	**-**	**-**	**-**	**446**	**2,744**

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 35)	20,524	10,000	7,040	-	920	-	-	-	38,484
Equity of investment account holders	-	3,099	-	-	-	-	-	657	3,756

Notes to the Consolidated Financial Statements
As at 30 June 2017

33 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 2017	*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	7,571	-	-	-	-	**7,571**
Investments	87,689	59,795	6,152	2,789	4,929	**161,354**
Investment in associates and joint venture accounted under the equity method	25,850	1,110	-	-	-	**26,960**
Murabaha financing to investee companies	-	-	-	-	34,750	**34,750**
Receivables	13,807	2,705	-	118	-	**16,630**
Funding to project companies	-	-	-	-	-	**-**
Other assets	11,233	5,493	1,569	9,315	-	**27,610**
Property and equipment	8,077	-	-	-	-	**8,077**
Total assets	**154,227**	**69,103**	**7,721**	**12,222**	**39,679**	**282,952**
Liabilities						
Islamic financing payable	101,674	-	-	-	-	**101,674**
Employee accruals	2,723	-	-	-	-	**2,723**
Other liabilities	7,910	-	-	-	-	**7,910**
Total liabilities	**112,307**	-	-	-	-	**112,307**
Commitments and contingencies	**12,348**	**17,363**	-	-	-	**29,711**
Equity of investment account holders	**2,744**	-	-	-	-	**2,744**

Notes to the Consolidated Financial Statements
As at 30 June 2017

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

(b) Geographic region (continued)

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

Notes to the Consolidated Financial Statements
As at 30 June 2017

34 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.

35 COMMITMENTS AND CONTINGENCIES

The Group has issued financial guarantees totaling USD 15.86 million (30 June 2016: USD 22.47 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 2016: USD nil) and commitments to invest of USD 13.85 million (30 June 2016: USD 16.01 million).

36 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 Acting 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 2017. The Group holds collateral comprising the pledge of four ships against its funding exposure to an investee in the shipping sector totalling approximately US$ 35 million as at 30 June 2017 (30 June 2016: nil). In the opinion of management, the value of the collateral based on recent ships valuations data, is considered to sufficiently cover the total exposure.

Notes to the Consolidated Financial Statements
As at 30 June 2017

36 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 32.

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 provided specific provisions as disclosed in note 25, and additionally has retained a collective impairment provision of USD 1.36 million as a general provision.

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

	30 June 2017 USD '000	*30 June 2016 USD '000*
Receivables	**7,684**	7,412
Funding to project companies	**12,067**	19,781
Other assets	**3,255**	2,641
Total	**23,006**	29,834

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 33.

At 30 June 2017, the total credit exposure to individual counterparties which comprised 10% or more of the Group's equity was USD 132.2 million relating to four counterparties (30 June 2016: USD 152.4 million relating to four 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.

Notes to the Consolidated Financial Statements
As at 30 June 2017

36 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 32 for the expected maturity profile of assets and liabilities.

	Gross undiscounted cash flows					
30 June 2017	***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	30,987	-	-	85,815	-	**116,802**
Employee accruals	2,266	-	-	457	-	**2,723**
Other liabilities	5,083	687	141	369	1,630	**7,910**
Total financial liabilities	**38,336**	**687**	**141**	**86,641**	**1,630**	**127,435**
Commitments and contingencies	**10,000**	**752**	**3,896**	**15,063**	**-**	**29,711**
Equity of investment account holders	**2**	**-**	**-**	**2,742**	**-**	**2,744**

	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

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.

Notes to the Consolidated Financial Statements
As at 30 June 2017

36 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 2017	*30 June 2016*
Placements with financial institutions	**1.50%**	1.50%
Islamic financing payables	**6.00%**	6.00%

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 2017 USD '000	*30 June 2016 USD '000*
100 bps parallel increase / (decrease)		
Placements with financial institutions	**± 1**	± 1
Funding to project companies	**± 42**	± 42
Islamic financing payables	**± 1,017**	± 1,017

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 2017 USD '000	*30 June 2016 USD '000*
Kuwaiti Dinars	**4,444**	4,931
Great Britain Pounds	**2,703**	7,506
Turkish Lira	**45,371**	44,122

Notes to the Consolidated Financial Statements
As at 30 June 2017

36 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 2017 and 30 June 2016 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 2017		*30 June 2016*	
	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%	**444**	-	493	-
Great Britain Pounds	+10%	**270**	-	751	-
Turkish Lira	+10%	**4,537**	-	4,412	-
Kuwaiti Dinars	-10%	**(444)**	-	(493)	-
Great Britain Pounds	-10%	**(270)**	-	(751)	-
Turkish Lira	-10%	**(4,537)**	-	(4,412)	-

(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 2017		*30 June 2016*	
		Effect on profit USD '000	***Effect on equity USD '000***	*Effect on profit USD '000*	*Effect on equity USD '000*
Trading securities	+1%	**46**	**-**	50	-
Available-for-sale	+1%	**-**	**13**	-	14
Trading securities	-1%	**(46)**	**-**	(50)	-
Available-for-sale	-1%	**-**	**(13)**	-	(14)

Notes to the Consolidated Financial Statements
As at 30 June 2017

36 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) 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 2017 USD '000	*30 June 2016 USD '000*
Total risk weighted assets	**1,121,121**	1,141,752
CET1 capital	**170,645**	224,294
Additional Tier 1	**-**	-
Tier 2 capital	**1,362**	1,362
Total regulatory capital	**172,007**	225,656
Total regulatory capital expressed as a percentage of total risk weighted assets	**15.34%**	19.76%
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 2017

37 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 2017	***Level 1 USD 000***	***Level 2 USD 000***	***Level 3 USD 000***	***Total USD 000***
Held for trading	4,582	-	-	**4,582**
Fair value through profit or loss	-	-	101,032	**101,032**
Available-for-sale	1,305	-	-	**1,305**
	5,887	**-**	**101,032**	**106,919**

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

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 2017 USD 000	*30 June 2016 USD 000*
At 1 July	**117,982**	106,112
Fair value losses recognised in the consolidated statement of income - net	**(37,810)**	(17,049)
Additional investmentsmade during the year - net	**20,860**	28,919
At 30 June	**101,032**	117,982

Notes to the Consolidated Financial Statements
As at 30 June 2017

37 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 1,778 thousand, whereas a 1% decrease in the discount rate would increase the fair values by approximately USD 1,854 thousand. The potential income effect of 0.5 times change, on either side, in the market multiples, which is a key variable used in the valuation technique, would increase the fair values by approximately USD 2,460 thousand or reduce the fair values by approximately USD 2,460 thousand respectively.

Investments amounting to USD 54,435 thousand (30 June 2016: USD 63,855 thousand) are carried at cost less impairment provision in the absence of a reliable measure of fair value. However in the opinion of management and based on best estimates, the fair value is not considered to be materially different from above carrying value.

Additional Public Disclosures
Contents

Additional Public Disclosures
30 June 2017

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 condensed consolidated financial statements for the year ended 30 June 2017.

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 2017, the Bank's total risk weighted assets amounted to US$ 1,121 million; Common Equity, Tier 1 Capital and total regulatory capital amounted to US$ 170.6 million, US$ 170.6 million and US$ 172.0 million respectively. Accordingly, Common Equity Ratio, Tier 1 Capital Adequacy Ratio and total Capital Adequacy Ratio was 15.22%, 15.22% and 15.34% 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 countries in the Gulf Cooperation Council ("GCC").

2.2 Group structure:
The Bank has the following operational subsidiaries, together ("the Group") 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%
In addition, during the year the Bank increased its stake in the below investee through conversion of receivables to equity resulting in it becoming a subsidiary which is accounted for at fair value through profit and loss as disclosed in the notes to the financial statements:			
German Orthopedic Hospital WLL	Kingdom of Bahrain	BHD 20,000	51%

Additional Public Disclosures
30 June 2017

2 Capital Structure (continued)

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. In the following years, the Bank witnessed a turnaround registering net profits of US$ 21.1 million for the 18 month period ended 30 June 2013, and US$ 14.59 million, US$ 14.06 million, and US$ 9.28 million for the years ended 30 June 2014, 2015 and 2016 respectively. However the current year ended 30 June 2017 has been affected by major asset impairment losses resulting in a net loss of US$ 53.65 million for the year.

Particulars	*June 2017*	*December 2016*	*June 2016*	*June 2015*	*June 2014*	*June 2013 (18 mths)*	*December 2012*
Net profit (US$ m)	(53.65)	(22.57)	9.28	14.06	14.59	21.15	18.51
ROC (return on paid up capital)	-28.2%	-11.9%	4.9%	7.8%	8.1%	5.5%	7.2%
Head count	51	52	50	49	45	45	42
Total investments / total assets	67%	63%	65%	76%	70%	75%	76%
Leverage (total liabilities / total equity)	65.8%	56.0%	49.0%	14.4%	15%	11%	6%
Retained earnings / paid up capital	-13%	3%	15%	19%	17%	-22%	-23%

As shown by the consolidated financial statements, income from investment banking services is the main contributor to net income. The Bank's investment team are working on a pipeline of deals which are expected to grow fiduciary assets under management and thereby increase the proportion of recurring income from management fees.

Additional Public Disclosures
30 June 2017

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 business.

2.5 The Bank utilises a risk adjusted measure of capital adequacy (i.e. Capital Adequacy Ratio or "CAR") based on the 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 for operational risk.

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 12.5% minimum 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 2017, 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 2017

2 Capital Structure (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 2017

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		
Accumulated losses	(25,084)		
All other reserves	(130)		
Total CET1 capital before minority interest	**170,645**		
Total Common Equity Tier 1 capital	**170,645**		
Other Capital (AT1 & T 2)			
General financing loss provisions		-	1,362
Total Available AT1 & T2 Capital		**-**	**1,362**
Net Available Capital	**170,645**	**-**	**1,362**
Total Tier 1		**170,645**	
Total Available Capital			**172,007**

Reconciliation with reviewed interim condensed consolidated financial statements:		
Shareholder's equity per reviewed interim condensed consolidated financial satements		**170,645**
Add:	Collective impairment provisions	1,362
Total available capital for regulatory purposes		**172,007**

Additional Public Disclosures
30 June 2017

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	5,424	1,086	130
Other Corporates Including Category 3 Investment Firms - (net of CRM)	45,669	45,669	5,480
Equity Investments			
Investments in listed equities in banking book	4,573	4,573	549
Investments in unlisted equities in banking book	73,870	110,804	13,297
Significant investment in the common shares of financial entities >10%	11,898	29,745	3,569
Significant investment in the common shares of Commercial Entities above 15%, 60%	51,525	412,200	49,464
Other exposures with excess of large exposure limits (Module CM)	30,842	246,733	29,608
Premises occupied by the bank	8,960	8,960	1,075
Holding of Real Estate - Others	38,180	76,361	9,163
Investment in listed real estate companies	1,305	3,915	470
Investment in unlisted real estate companies	26,112	104,450	12,534
Other exposures	22,907	22,907	2,749
Total credit risk exposure under standardized approach	**321,265**	**1,067,402**	**128,088**
Market risk:			
Trading equities position	4,582	9,164	1,100
Foreign exchange position	16,025	16,025	1,923
Total market risk under standardized approach	**20,607**	**25,189**	**3,023**
Operational risk under Basic Indicator Approach (ref. below)		**28,530**	**3,424**
Total		**1,121,121**	**134,534**
Total eligible capital - (Tier 1 + Tier 2)		**172,007**	
Total eligible capital - Tier 1		**170,645**	
Common Equity Tier 1		**170,645**	
Total Capital Adequacy Ratio (Tier 1 + Tier 2)		**15.34%**	
Tier 1 Capital Adequacy Ratio		**15.22%**	
Common Equity Tier 1 Ratio		**15.22%**	

Capital requirement for Operational Risk (Basic Indicator Approach)

			USD '000
	2017	*2016*	*2015*
Gross income for prior three years	(30,281)	15,037	15,395
Average of past 3 years gross income (excl. loss years)	15,216		
Capital requirement for Operational Risk (15%)	2,282		
Risk weighted exposure for Operational Risk	**28,530**		

Total gains / (losses) on investments:	***Period ended 30 Jun 2017***
	USD '000
Unrealised fair value losses recognized in the statement of income	(38,266)
Unrealised fair value gains recognized in equity during the year	-

Additional Public Disclosures
30 June 2017

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-17*	*30-Jun-16*	*30-Jun-15*	*31-Mar-15*	*31-Dec-14*	*30-Sep-14*	*30-Jun-14*	*31-Mar-14*	*31-Dec-13*	*Maximum*	*Minimum*
Market risk exposures											
Listed equities held for trading	4,582	5,038	2,816	3,008	1,104	907	897	880	115	5,038	115
Foreign currency exposure*	16,025	24,077	73,851	77,233	72,894	79,897	76,013	65,256	78,887	79,897	16,025
Market risk charge											
Listed equities held for trading	733	806	451	481	177	145	143	141	18	806	18
Foreign currency exposure	1,282	1,926	5,908	6,179	5,832	6,392	6,081	5,220	6,311	6,392	1,282
Total market risk charge	2,015	2,732	6,359	6,660	6,008	6,537	6,225	5,361	6,329	7,198	1,300
Market risk weighted exposure											
Listed equities held for trading	9,164	10,076	5,633	6,017	2,207	1,813	1,793	1,761	230	10,076	230
Foreign currency exposure	16,025	24,077	73,851	77,233	72,894	79,897	76,013	65,256	78,887	79,897	16,025
Total market risk weighted exposure	**25,189**	**34,153**	**79,484**	**83,250**	**75,101**	**81,710**	**77,806**	**67,017**	**79,117**	**83,250**	**25,189**

Table 4 – Details of credit risk weight on Islamic financing contracts at 30 June 2017, 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	34,750	34,750
Profit free funding to projects	-	-
Total Islamic Financing Contracts	**34,750**	**34,750**

Additional Public Disclosures
30 June 2017

Additional Public Disclosures
30 June 2017

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 which reports to the Board Risk Committee is empowered to independently identify and assess risks that may arise from the Bank's investing and operating activities; and recommend 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 2017, 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. As at 30 June 2017 bank balances totalling US$ 3.4 thousand were rated as "ECAI 3 (BBB+ to BBB-)" based on ratings issued by Moody's - resulting in a risk weight of 50%. In the absence of 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.

Additional Public Disclosures
30 June 2017

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 certain "Liquidity Programs" which has raised funds through the issuance of Shari'ah compliant one year liquidity instruments with early redemption options of 30 days, 90 days and 180 days with attractive yields. These are backed by the rental yields of the VC Bank Building, a prime commercial property in the Diplomatic Area of the Kingdom of Bahrain, and of the Jebel Ali Labour Housing Complex in Jebel Ali, United Arab Emirates.

Off-Balance Sheet Items

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

a. Contingent exposure of US$ 15.86 million (30 June 2016: US$ 22.47 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$ 13.85 million (30 June 2016: US$ 16.01 million; and

c. Restricted investment accounts of US$ 2.74 million (30 June 2016: US$ 3.76 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 2017

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 2017*

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	7,571	-	-	-	-	7,571
Investments	87,689	59,795	6,152	2,789	4,929	161,354
Investment in associates and joint venture accounted under the equity method	25,850	1,110	-	-	-	26,960
Murabaha financing to investee companies	-	-	-	-	34,750	34,750
Receivables	13,807	2,705	-	118	-	16,630
Funding to project companies	-	-	-	-	-	-
Other assets	11,233	5,493	1,569	9,315	-	27,610
Property and equipment	8,077	-	-	-	-	8,077
Total assets	**154,227**	**69,103**	**7,721**	**12,222**	**39,679**	**282,952**
Off statement of financial position items						
Equity of investment account holders	2,744	-	-	-	-	2,744
Commitments and contingencies	12,348	17,363	-	-	-	29,711
	169,319	**86,466**	**7,721**	**12,222**	**39,679**	**315,407**

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

Additional Public Disclosures
30 June 2017

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 2017*

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	-	7,571	-	-	-	-	-	-	7,571
Investments	10,639	13,684	44,455	5,460	19,002	1,107	4,929	62,078	161,354
Investment in associates and joint ventures accounted under the equity method	-	-	24,876	-	-	-	-	2,084	26,960
Murabaha financing to an investee companies	-	-	-	-	-	-	34,750	-	34,750
Receivables	-	80	2,618	-	290	-	-	13,642	16,630
Funding to project companies	-	-	-	-	-	-	-	-	-
Other assets	5,414	20	10,247	-	13	-	-	11,916	27,610
Property and equipment	-	-	7,597	-	-	-	-	480	8,077
Total Assets	**16,053**	**21,355**	**89,793**	**5,460**	**19,305**	**1,107**	**39,679**	**90,200**	**282,952**
Off statement of financial position items									
Equity of investment account holders	-	2,298	-	-	-	-	-	446	2,744
Commitments and contingencies	17,363	10,000	1,304	-	1,044	-	-	-	29,711
	33,416	**33,653**	**91,097**	**5,460**	**20,349**	**1,107**	**39,679**	**90,646**	**315,407**

c. *Table 7: Exposures by maturity as at 30 June 2017*

Distribution of Bank's exposures by maturity USD '000

Maturity-wise exposures	*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*	*No fixed maturity*	*Total*
Assets								
Balances and placements with banks	7,571	-	-	7,571	-	-	-	7,571
Placements with financial institutions	-	-	-	-	-	-	-	
Investments	-	-	7,120	7,120	-	-	154,234	161,354
Investment in associates and joint ventures	-	-	-	-	-	-	26,960	26,960
Murabaha financing to an investee companies	-	-	-	-	34,750	-	-	34,750
Receivables	10,247	2,790	768	13,805	2,825	-	-	16,630
Funding to project companies	-	-	-	-	-	-	-	-
Other assets	1,230	12,074	466	13,770	14	11	13,815	27,610
Property and equipment	-	-	-	-	-	-	8,077	8,077
Total assets	**19,048**	**14,864**	**8,354**	**42,266**	**37,589**	**11**	**203,086**	**282,952**
Off statement of financial position items								
Equity of investment account holders	-	-	-	-	2,742	-	2	2,744
Commitments and contingencies	-	752	3,896	4,648	15,063	-	10,000	29,711
	19,048	**15,616**	**12,250**	**46,914**	**55,394**	**11**	**213,088**	**315,407**

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

Additional Public Disclosures
30 June 2017

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:

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 2017

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	-	-	512	512
Investments	19,838	-	7,634	27,472
Investments in associates and joint venture	26,960	-	-	26,960
Murabaha financing to investee companies	34,750	-	-	34,750
Other assets	5,414	-	684	6,098
Liabilities				
Employee accruals	-	1,503	-	1,503
Other liabilities	-	-	360	360
Income				
Share of loss of associates and joint venture accounted for using the equity method	(250)	-	-	(250)
Expenses (excluding compensation for key management personnel)				
Other income	-	-	718	718
Impairment allowances against receivables	717	-	-	717
Commitments and contingencies	18,726	-	-	18,726

Additional Public Disclosures
30 June 2017

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.

Additional Public Disclosures
30 June 2017

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.

Shariah compliance

3.24 The Shariah 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 Shariah. The Bank also has a dedicated internal Shariah reviewer who performs an on-going 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 Shariah 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 Shariah 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 on-going 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.

Additional Public Disclosures
30 June 2017

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 2017*	*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*
Private Equity investments - fair value (losses) / gains	(37,810)	(17,049)	2,000	(2,250)	(7,300)	(2,000)	(1,711)
Real Estate investments - fair value (losses) / gain	-	-	-	-	-	-	(13,572)
Listed equity investments - fair value (losses) / gains	(456)	(459)	(327)	17	(15)	(20)	(131)
Total unrealized fair value (loss) / gain	**(38,266)**	**(17,508)**	**1,673**	**(2,233)**	**(7,315)**	**(2,020)**	**(15,414)**

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 has obtained an Islamic financing payables comprising short term bank borrowings of US$ 30.99 million and a medium term loan of US$ 70.69 million as at 30 June 2017. 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 was developed and put in place as part of process improvements for the management of liquidity funding risk. The Bank has a portfolio of quoted equity securities in addition to holdings in its yielding Liquidity Programs which are available to meet any unexpected shortfalls in funding requirements.

Additional Public Disclosures
30 June 2017

3 Risk Management (continued)

3.32 The Bank's liquidity ratio (cash and cash equivalents plus marketable securities to total liabilities) stood at 15% as at 30 June 2017:

Table 10: Liquidity Ratio as at 30 June 2017

	USD '000
Cash at bank	7,441
Placements at bank	130
Marketable trading securities	4,582
Marketable available-for-sale securities	1,305
Short term liquidity certificates	1,190
Total liquid assets	**14,648**
Total liabilities	**112,307**
Of which, due in up to 1 year	* 38,221
Non current, due after 1 year or more	74,087
Liquid assets / total liabilities	**13%**
Liquid assets / current liabilities (due within 1 year)	**38%**

NB: * Amounts totalling $ 29,976 thousand of this comprise interbank lines which are expected to be rolled over

Additional Public Disclosures
30 June 2017

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 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 2017 Reprising period	Rate sensitive assets	Rate sensitive liabilities	Gap	Cumulative Gap	Impact of 200 bp change
	USD'000				
> 1 day to 3 months	-	30,987	(30,987)	(30,987)	(620)
> 3 months to 6 months	-	-	-	(30,987)	-
> 6 months to 12 months	7,120	-	7,120	(23,867)	142
> 1 year to 5 years	34,750	70,687	(35,937)	(59,804)	(719)
Total	41,870	101,674			
As % of total balance sheet	15%	36%			

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

a. Net profit margin income for the reprising period of 1 day to 3 months would potentially decrease by US$ 620 thousand if the profit margin rate increases by 200 basis points.

b. Net profit margin income for the reprising periods of 3 months to 6 months would potentially increase by US$ 142 thousand if the profit margin rate increases by 200 basis points.

c. Net profit margin income for the reprising periods of 1 year to 5 years would potentially decrease by US$ 719 thousand if the profit margin rate increases by 200 basis points.

Additional Public Disclosures
30 June 2017

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:

> 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 currently approximately US$ 2.7 million. The Bank manages the fund as a Mudarib, in exchange for a fee of 20% of returns over a 10% simple return. The investments in the GCC Pre IPO Fund are exposed to the general equity market risks prevalent in the GCC countries and in the real estate sectors.

> 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 2017	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
GCC Pre IPO Fund						
Net profit/(loss)	(808)	4	(152)	-	34	-
Total assets	2,744	3,756	3,833	3,879	3,740	3,678
Total equity	2,744	3,756	3,833	3,879	3,740	3,678
Return on assets (ROA)	-29%	0%	-4%	0%	1%	0%
Return on equity (ROE)	-29%	0%	-4%	0%	1%	0%

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 2017

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 period ended 30 June 2017		*Cumulative impairment provision as of 30 Jun 2017*		
Particulars	***Gross exposure***	***Specific***	***Collective***	***Specific***	***Collective***	***Net carrying value***
Investments	42,358	4,786	-	22,677	-	19,681
Investments in associates and joint venture	6,367	220	-	5,393	-	974
Receivable from investment banking services	7,684	971	-	4,568	-	3,116
Funding to project companies	12,067	-	-	12,067	-	-
Other assets	3,107	471	-	3,096	-	11
Collective provision	-	-	-	-	1,362	-
Total	**71,583**	**6,448**	**-**	**47,801**	**1,362**	**23,782**

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

		Impairment booked during the period ended 30 Jun 2017		*Cumulative impairment provision as of 30 Jun 2017*		
Particulars (USD '000)	***Gross exposure***	***Specific***	***Collective***	***Specific***	***Collective***	***Net carrying value***
Real estate	41,874	4,633	-	26,576	-	15,298
Health care	290	-	-	-	-	290
Technology	15,753	291	-	15,753	-	-
Oil and gas	18	-	-	18	-	-
Transportation	7,126	841	-	3,325	-	3,801
Others	6,522	683	-	2,129	-	4,393
Collective provision	-	-	-	-	1,362	-
Total	**71,583**	**6,448**	**-**	**47,801**	**1,362**	**23,782**

Additional Public Disclosures
30 June 2017

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 2017. 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%	149
1% - 2%	15
2% - 3%	6
3% - 4%	2
4% - 5%	0
More than 5%	2
Total	**174**

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 0.05% to 2.51% of total capital. In addition a number of Board members represent corporate shareholders with shares ranging from 0.48% to 7.23%.

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, the majority of who are independent non-executive Directors.

Additional Public Disclosures
30 June 2017

Disclosure template for main features of regulatory capital instruments		
1	Issuer	VENTURE CAPITAL BANK B.S.C. (c)
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	All applicable laws and regulations of the Kingdom of Bahrain
	Regulatory treatment	
4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group & solo
7	Instrument type (types to be specified by each jurisdiction)	Equity shares
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	USD 190 million
9	Par value of instrument	USD 1.00
10	Accounting classification	Equity
11	Original date of issuance	26 September 2005
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	NA