Ensuring consistent growth through **long-term strategic investments**

Annual Report 2017 - 2018

VENTURE
CAPITAL
BANK

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

بسم الله الرحمن الرحيم

Contents

Corporate Profile

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

Commencing operations in 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

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

Abdulfatah M R Marafie
Chairman of the Board

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 2018.

As predicted, this proved to be another highly challenging period for the regional investment banking industry. The year was marked by further economic, market and oil price volatility; heightened geopolitical tensions at a global and regional level; and ongoing economic reforms and fiscal measures by GCC governments, which continued to negatively impact the investment climate.

Against this challenging backdrop, the Board and Executive Management held its annual strategic workshop to review progress in implementing the Bank's strategic realignment that was introduced the previous year. This entails adoption of a rigorous qualitative-based approach towards selecting new investments and strengthening the post-acquisition management of our investment portfolio. The workshop 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.

> "Our successful investment activities, together with steps taken in the prior year to clean up the investment portfolio and de-risk the balance sheet, resulted in VCBank reporting an improved financial performance for fiscal 2018."

The results of the concerted efforts by the Board and Management during the year were very positive with four investment exits being concluded with aggregate proceeds of USD 105 million, and a number of additional exits approaching the final stages of execution. The Bank also commenced negotiations for one new investment acquisition. Cash proceeds received by VCBank from exits amounted to USD 28.1 million while USD 76.7 million was returned to investors. In addition, the Bank successfully raised USD 43.6 million from retail and strategic investors for a number of existing investments. This demonstrates a good level of achievement and shows continued progress in our restructuring which will lead us to realise growth in shareholders' equity despite the negative effects of the investment climate.

These successful investment activities, together with steps taken in the prior year to clean up the investment portfolio and de-risk the balance sheet, resulted in VCBank reporting an improved financial performance for fiscal 2018.

The Bank reported total revenue of USD 16.19 million compared with USD 8.59 million in fiscal 2017; while operating expenses excluding financing costs reduced to USD 10.36 million from USD 12.47 million in the previous year. After booking fair value losses and impairment provisions of USD 8.83 million (FY 2017: USD 44.71 million), the Bank reported a net loss of USD 5.25 million for fiscal 2018 compared with a net loss of USD 53.65 million in the prior year.

VCBank maintained a strong capital base, with total balance sheet assets of USD 292.16 million as at 30 June 2018 compared with USD 282.95 million at the end of the previous year. Shareholders' equity at the year-end stood at USD 165.46 million versus USD 170.64 million at the end of fiscal 2017, while the Bank's capital adequacy ratio (CAR) improved to 19 per cent at 30 June 2018 compared with 15 per cent at the end of fiscal 2017.

During the year, we continued to strengthen our institutional capability. Particular focus was placed on ensuring that the Bank maintains a robust corporate infrastructure through which to support our business divisions. We also enhanced our corporate governance and risk management frameworks to maintain compliance with changing regulatory requirements, and to protect the Bank from the impact of increasingly volatile market conditions.

It is with deep regret that I report the sad demise of Mr. Khalid Abdulaziz Al Mediheem on 21 February 2018 after a long illness. He served the Bank diligently as an independent and non-executive director for the past five years, during which time the Board benefited greatly from his considerable industry knowledge, business acumen and wise counsel. As such, Khalid's presence on the Board will be sorely missed. May God rest his soul in eternal peace.

Looking ahead, next year is likely to be yet another highly-testing and unpredictable period, with a continuation of the same issues that characterised fiscal 2017, plus the new threat of a global trade downturn. However, improved oil prices, together with the emerging benefits of regional economic and fiscal reforms, should have a positive impact on GCC economies in the medium to long term.

It is encouraging to note that VCBank enters the next fiscal year in a much stronger position due to its clean balance sheet, healthy portfolio, adequate liquidity and attractive pipeline of new investment deals and exits. The Bank also benefits from a highly-supportive Board of Directors, a stable and well-experienced Management Team, and a very loyal client base.

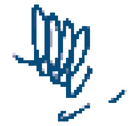
The Board has full confidence in the ability of Management to maintain our realigned strategic focus through which to capture new business opportunities and return the Bank to profitability. As such, we remain cautiously optimistic about the Bank's prospects in FY 2019, despite the many challenges and uncertainties that lie ahead.

In conclusion, on behalf of the Board of Directors, I extend my sincere thanks and appreciation to His Majesty the King of Bahrain, His Royal Highness the Prime Minister, and His Royal Highness the Crown Prince and First Deputy Prime Minister, for their wise leadership and reform programme, and their encouragement for the Islamic banking sector.

Grateful acknowledgements are also due to the Central Bank of Bahrain, the Ministry of Industry, 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; and to our Shari'ah Supervisory Board for its ongoing guidance and supervision. I also pay special tribute to the Bank's management and staff for their highly-valued dedication and professionalism in yet another challenging year.

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 M R Marafie
Chairman of the Board

Board of Directors

Abdulfatah M R Marafie
Chairman

State of Kuwait

Mohammed Abdulaziz AlSarhan
Deputy Chairman

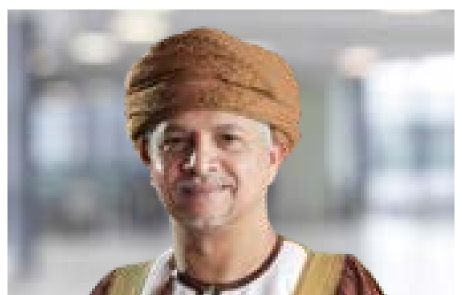
Kingdom of Saudi Arabia

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 *(Sadly passed away on 21st February 2018)*
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

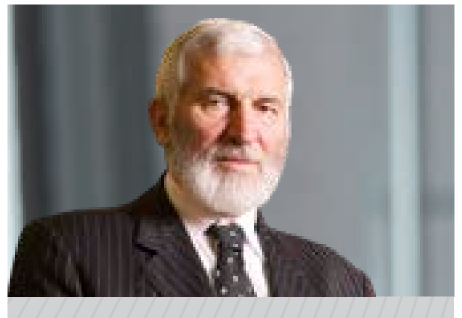
Yaser Mohammed Al Jarallah
Board Member

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

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

Abdullatif Mohamed Janahi
Board Member & Chief Executive Officer

I am pleased to report that VCBank posted an improved operational performance for fiscal year 2018. Under the Chairman's direction and guidance, the Board and Management team took part in a special workshop to review progress of the Bank's realigned investment strategy; and to identify new initiatives for enhancing the overall efficiency and effectiveness of the organisation.

"The Bank successfully executed four investment exits as well as identifying several others with short-term exit potential. In addition, remedial action was taken to revive certain mature investments that have been historically affected by financial, economic, market or geopolitical issues."

This entailed thoroughly analysing the Bank's investment portfolio by asset class, sector and geography; and reviewing the realistic valuation and exit potential of our portfolio companies. To facilitate the effective operational management of the portfolio, each investment project has been assigned a dedicated champion. In addition, the Post-Acquisition team holds weekly meetings with the Investment and Wealth Management teams, and other functions as appropriate, to monitor progress of investments and exits on a regular and proactive basis.

This exercise, and the ensuing actions taken by the Bank throughout the year, proved to be most effective. We successfully executed four investment exits as well as identifying several others with short-term exit potential. In addition, remedial action was taken to revive certain mature investments that have been historically affected by financial, economic, market or geopolitical issues.

The most significant exit involved the sale of the Bank's 69 per cent stake in the Royal Hospital for Women (RHW) in Bahrain for USD 39 million to Amanat Holdings, a DFM-listed investment company focused on the GCC healthcare and education sectors. This exit generated a 34 per cent return on investment. The sale of the recently-completed hospital, with its unique patient value proposition, marks the Bank's first investment exit from the regional healthcare sector in which we have developed a particular expertise.

Our healthcare investments in Bahrain, which include the specialist German Orthopaedic Hospital, reflect VCBank's enduring commitment as a concerned corporate citizen to contribute to the social well-being and prosperity of the Kingdom. As well as improving the quality of life for the local community through enhanced healthcare facilities, these two specialist hospitals provide employment and training opportunities for Bahraini nationals.

We also concluded the final exit from VCBank's SAR 217 million (c. USD 58mn) investment in Byrne Equipment Rental (BER) with full realisation of exit proceeds and delayed payments. This exit provided investors with a return of 45 per cent. In addition to its exit activities, the Bank was successful in identifying a new investment acquisition through which to diversify its growing regional food and beverages (F&B) portfolio. In partnership with First Energy Bank, we signed a sales and purchase agreement to acquire a 50 per cent stake in OBA Makarna, whose pasta brand is ranked number one in Turkey and second in th e world in terms of capacity. This planned acquisition will complement our existing F&B and agribusiness portfolio companies in Turkey, which comprise Mado, Goknur and Turkey Farmland; together with our investment in the Fuddruckers Restaurant and Caribou Coffee franchises in Bahrain.

During the year, we took decisive steps to strengthen the operational efficiency and effectiveness of the Bank's control and corporate functions, with a particular focus on accountability and delivery. This entails all staff clearly understanding their roles, responsibilities and key tasks; and fully playing their part to achieve strategic objectives and business goals. The ability and willingness to look ahead to the future and adopt a new sense of urgency, are also critical success factors in all staff contributing to VCBank's continued growth and development.

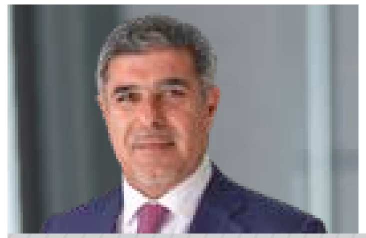
We have no doubt that next year will be another testing and challenging period for the regional investment banking industry. Economic uncertainty, market volatility and geopolitical tensions remain key issues that will have an impact on corporate and investor sentiment. However, the recent improvement in oil prices, plus latest World Bank and IMF forecasts for continued GDP growth by MENA and GCC regions in 2018 and 2019, paint a more positive picture. As a result of the measures taken during the year, VCBank is now a more focused and strategically-aligned institution, better equipped to face the numerous challenges that lie ahead. We therefore maintain our cautiously optimistic outlook for the Bank's prospects; and remain confident in our collective ability to achieve improved revenue growth and sustainable profitability.

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 their 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

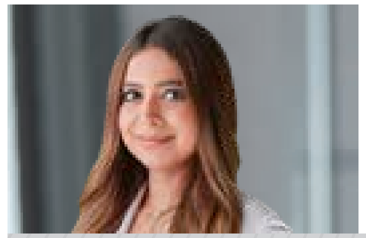
Faisal A. Aziz Al Abbasi
Chief Investment Officer

Robert C. Wages
Senior Executive Director - Head of Post-Acquisition

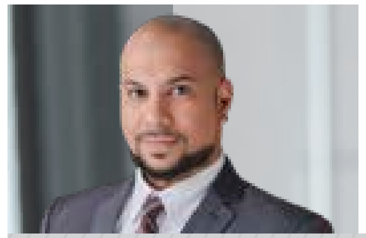
Santosh Jacob Karipat
Executive Director - Head of Financial Control

Jehad Hasan Qamber
Head of Human Resources & Support

Asya Hasan
Head of Internal Audit



Huda Faisal Janahi
Head of Risk Management



Mohamed Khalid Ateeq
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

NEW INVESTMENT

OBA MAKARNA

Venture Capital Bank, in partnership with First Energy Bank, has signed a sales and purchase agreement (SPA) to acquire a 50 per cent stake in OBA Makarnacılık San. ve Tic. A.Ş. (OBA Makarna). The Company's OBA pasta brand is ranked number one in Turkey and second in the world in terms of capacity, equating to 1,500 tons of wheat crushing per day and 1,000 tons of pasta production daily. OBA offers 40 different products which are exported to 85 countries, including the UK, Germany, Africa, China, South Korea, India and the Middle East.

INVESTMENT EXITS CONCLUDED

ROYAL HOSPITAL FOR WOMEN

VCBank has sold its 69 per cent stake in the recently-completed Royal Hospital for Women (RHW) in Bahrain for US$ 39 million to Amanat Holdings, a Dubai Financial Market-listed investment company focused on the GCC healthcare and education sectors. This exit generated a 34 per cent return on the original investment. Based on a 'healthcare and hospitality' model that is unique to the region, the Royal Hospital for Women (RHW) was conceived by VCBank to fill an underserved niche in the market for world-class specialist primary and secondary healthcare services for women and children. Comprising 65 inpatient beds, RHW will focus initially on the provision of comprehensive maternity facilities, extending to pre-natal and post-natal care, and gynaecology.

BYRNE EQUIPMENT RENTAL

VCBank concluded the final exit from its SAR 217 million (c. USD 58mn) investment in Byrne Equipment Rental (BER) during FY 2018, with full realisation of exit proceeds and delayed payments, providing investors with a return of 45 per cent. BER is one of the largest and most diversified equipment rental and modular space providers in the GCC, and operates through its well-established brands – Byrne Equipment Rental and Spacemaker – across the UAE, Saudi Arabia and Oman.

DARI HOLDING

The Bank arranged the sale of idle land owned by Dari Holding in Umm Al Quwain for AED 7 million. Since VCBank owned 50 per cent of Dari Holding, which had previously been fully provided for, the sale realised a gain of USD 1 million for Bank.

MANAZEL REAL ESTATE

VCBank has sold its stake in Manazel Real Estate. Headquartered in Abu Dhabi, the Company is one of the UAE's leading developers of quality affordable homes for the middle-income segment.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1. ITWorx
2. German Orthopaedic Hospital
3. Royal Hospital for Women
4. Byrne Equipment Rental

MATURE INVESTMENTS EARMARKED FOR EXIT

GREAT HARBOUR

Great Harbour is a unique seafront plot measuring over 35,000 square metres in Hidd, Bahrain. Following a detailed assessment of the market, an exit route was chosen 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. Following formal approval for the subdivision of the land from the relevant authorities, the issue of title deeds is underway, with a final exit expected soon.

THE WORLD

An interested group of investors has placed a deposit for the proposed purchase of a plot of land owned by VCBank in The World, an iconic residential and leisure community located off the coast of Dubai, UAE. The land is free of any commitments and obligations, and has substantial built-in value comprising project studies, detailed designs and regulatory approvals.

ITWORX

ITWorx is one of the largest software outsourcing firms in Egypt, with offices in Saudi Arabia, UAE, Qatar, Europe and the USA. Following a record financial performance for the first half of 2017, VCBank re-appointed Lazard to help manage the sale of ITWorx, which has resulted in a letter of intent being signed by a prospective buyer.

GERMAN ORTHOPAEDIC HOSPITAL

A number of investors have expressed their interest in purchasing the German Orthopaedic Hospital in Bahrain. Since opening in 2010, this specialist hospital has earned a reputation for world-class orthopaedic treatment and surgery for patients in Bahrain and the wider GCC market, especially the Eastern Province of Saudi Arabia and Kuwait.

Investment Review continued

JAFCCO

Jordan Al Abyad Fertilizers & Chemicals Company (JAFCCO) specialises in manufacturing chemical fertilizers and a range of industrial chemicals. Operations have successfully resumed in line with the restructuring plan and the injection of fresh capital, with three reactors operating at above 90 per cent utilisation. The current focus is on two main products – SOP and SA – and the resumption of DCP is planned to be accelerated to further improve cash flow. The Company is currently evaluating the feasibility of introducing new products that have stronger market demand and higher margin potential. A number of investors have reconfirmed their interest in investing in the Company.

QCON

Established in 1975, Qatar Engineering & Construction Company (QCon) is a leading maintenance and engineering, procurement and construction (EPC) contracting company. Following record financial results reported in 2016, consultants were appointed to manage 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. However, QCon was successful in winning a number of key contracts in Qatar during 2017; and continues to participate aggressively in the bidding process, targeting the oil and gas sector as well as civil and infrastructure projects.

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. The Company is successfully implementing growth initiatives which focus on strategically expanding its business lines and geographic footprint. The white labelling business is becoming a significant source of revenue for Goknur, with new agreements having recently been signed with Walmart and other major US retailers. In addition, the Company has discussed potential areas of collaboration with one of China's leading juice suppliers. It is also planning to establish a branch office and warehouse in Bahrain to strengthen its presence in the GCC region. Goldman Sachs was appointed to commence the sale of the Company to prospective buyers. However, due to the Turkish lira crisis, the exit process has been put on hold.

PRIVATE EQUITY

FUDDRUCKERS & CARIBOU

VCBank owns 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. Fuddruckers and Caribou have been operating in the Kingdom since 1995 and 2007, respectively. There are currently six Fuddruckers and 20 Caribou Coffee outlets across Bahrain, while several new outlets are planned to be opened in the near future.

MADO GROUP

VCBank holds a 42.7 per cent stake in the Mado Group which was established in Turkey in 1962. Mado has grown to be the leading Turkish ice-cream brand as well as the largest café / patisserie chain franchisor in the country, with 306 domestic stores in 52 cities. The Company also has 46 international stores in 18 countries. A pipeline of new branches comprises 11 domestic stores in 7 cities and 21 international stores in 9 countries.

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Mado has launched a new ice cream stand concept that will increase Mado's penetration beyond the current Mado coffee shop and café concepts.

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5. Mado Group
6. Caribou Coffee
7. Goknur

For the year ended 31 December 2017, the Mado Group achieved a 22 per cent increase in sales; and opened 23 new domestic stores and 14 new international branches. Franchise expansion initiatives under consideration include Taiwan as a first stage, followed by China, Japan and Australia. Studies are also underway for potential expansion into key markets across Europe.

DELTA COMPANY LIMITED

VCBank holds a 45 per cent shareholding in Delta Company Limited, one of the leading contractors in Saudi Arabia specialising in the fields of electrical power, transmission and distribution. The Company continues to implement its action plan designed to mitigate the short-term effects of economic reforms being enacted by the Government of Saudi Arabia. The Saudi Electricity Company (SEC) is expected to launch up to five new projects in 2018 valued at c. SAR 1.0 billion. Delta is currently bidding for projects worth a total of SAR 150 million and plans to bid for an additional SAR 500 million of projects during the coming year. The Company declared a dividend of SAR 30 million for the fiscal year ended March 2017.

Investment Review continued

TURKEY FARMLAND

As at April 2018, the Company's total land bank had grown to 10.63 million square metres, with a total planted area of 7.91 million square metres and more than one million trees having being planted. During 2017, over 800 tons of organic apple, pear, sour cherry and peach fruits were harvested and sold to Goknur, which was 72 per cent higher than budgeted. For 2018, the harvest is expected to increase sevenfold, as trees planted in 2016 begin to bear fruit. The Company is focused on acquiring and planting farmlands that are adjacent to each other in order to expedite revenue generation and minimise costs associated with planting. In addition, the Company continues to explore diversification through business lines that can complement its core operations of fresh fruit harvesting, such as animal livestock, poultry, fish farming and honey production.

LEMISSOLER MARITIME COMPANY

The Company operates a fleet of four specialised commercial vessels and containerships (one owned directly and three partially-owned through an investment in MENA SHIPCO) under profitable medium-term fixed-rate charters. The global bulk cargo shipping market witnessed a significant recovery in 2017, reaching a three-year high at a 5 per cent growth rate driven by increased dominance of China in the dry bulk sector. With freight rates having turned profitable for all sizes of dry bulk ships and market spot rates continuing to improve, the outlook for the industry is positive. The value of the Company's vessels has increased due to a lack of activity in the newbuild market together with excess capacity being scrapped.

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MENA SHIPCO

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. The vessels are currently profitable and are chartered at rates higher than their daily operational costs. For the year ended 31 December 2017, the Company reported higher revenues and profits than previous years, driven by improved rates due to an improved performance by the global shipping industry.

MENA SME FUND

Established in 2006, the Fund's portfolio companies are JAFCCO, ITWorx and QCon (covered under the Investment Exits section of this Review) and Challenger Limited, which is reported below.

CHALLENGER LIMITED

The Company is an international provider of contract oil and gas land drilling and workover services, headquartered in Egypt and operating mainly in Libya with a fleet of 29 onshore drilling rigs. Over the past two years, Libya has experienced an impressive recovery in crude output to over 800,000 barrels per day, and the National Oil Company estimates production of around 1 million bpd for 2018. Challenger currently has three rigs under contract in Libya and one in Tunisia, while negotiations are underway for contracting two additional rigs in Libya. A local security firm was appointed to visit rigs to evaluate their condition and identify the possibility of mobilising the assets, given a number of the rigs had been caught in areas of armed conflict. To date, the firm has physically located 15 rigs and reported on their location and condition; and gathered information on the likely whereabouts of the remaining rigs.

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 continues to implement a number of cost-cutting measures; and the Board has approved a capital reduction plan in two tranches 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.

8. Turkey Farmland
9. VCBank Liquidity Programme 1

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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 in Bahrain and Dubai. 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 parking. 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. Venture Capital Bank Building and Jebel Ali Labour Accommodation Complex both witnessed significant tenancy changes during the year, but potential replacement tenants have been identified.

AL KHOBAR SPECIALIST HOSPITAL

VCBank has partnered with Saudi-based Al Othman Holding Company to develop a new 250-bed hospital at Al Khobar in the Kingdom of Saudi Arabia (extendable to 400 beds). 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. Due to the two-floor expansion of the hospital, the construction plan has been extended by an additional two months.

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, The Lounge rented an additional floor during the year.

BAYAN REAL ESTATE DEVELOPMENT COMPANY

Phase one of the Company's debut affordable residential project – Gardinia Aziziyah – comprises 156 housing units of duplexes and detached villas located in the Al-Aziziyah area of Al Khobar, close to Half Moon Beach and Prince Mohammed bin Fahd University. The project has been significantly delayed due to complications in transferring the main title deed from Al Dammam to Al Khobar. Following final approval from the Royal Court, it is expected to take up to six months to finalise the deed transfer and subdivision of the land, after which the sales process of completed units will commence.

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.

Investment Review continued

REAL ESTATE

BRIDGEWATER & PRESTON CREEK, USA

VCBank and its investors own 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. Renovation programmes of both properties are on track, and all units have been leased and are 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 own a 90 per cent interest in the WestHaven at Vinings property in Atlanta, Georgia, USA. The property is a 610-unit garden and town home-style apartment community located within the exceptional Smyrna submarket, approximately 12 miles northwest of downtown Atlanta. 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. The renovation programme is on track, 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.

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. Sales and marketing activities have commenced, with a number of apartments having already been sold.

24 BUCKINGHAM GATE, 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. While the market for comparable properties in the £2 million to £5 million price bracket in this area of London remains slow, an offer has been received and accepted for the penthouse.

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DIFAAF, BAHRAIN

This architecturally-distinguished real estate development is strategically located on the prestigious residential development of Reef Island, Manama, Bahrain. The project consists of two high-rise residential towers comprising 533 residential units, and supporting amenities such as a swimming pool and gymnasium. Latest developments include the receipt of planning permits, completion of piling works and full mobilisation of the contractor.

ONE BAHRAIN

This iconic 50-storey waterfront tower occupies a prime location on Reef Island, Manama, Bahrain. The property features 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 start of piling works.

WAVES DEVELOPMENT COMPANY, BAHRAIN

The Company is developing a prime waterfront plot in Budaiya, one of the most popular and well-established family residential districts of Bahrain. The project will feature a range of villas and apartments in the mid-range price bracket. All necessary permits have been received, and the selection process for a contractor has commenced.

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

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.

The main objective of the Post-Acquisition function 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.

The Post-Acquisition team is also closely involved in the selection of new investment opportunities. It works 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.

During FY 2018, Post-Acquisition held weekly meetings with the Investment and Wealth Management teams and Financial Control, to monitor ongoing implementation of the Bank's refocused strategy, and manage the operational improvement of the Bank's investments. Portfolio companies continued to be subjected to thorough investment stress testing and analysis to determine the most realistic valuations. At the same time, appropriate remedial action was taken to revive legacy projects that have been affected by financial, economic, market or geopolitical issues.

Particular focus was placed on selecting the most eligible candidates for exit. The results of this concerted exercise were highly encouraging, with four investment exits being finalised during the year, while a number of additional exits are approaching the final stages of execution.

Wealth Management

The Wealth Management function 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 consistently 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 2018 proved to be another challenging year, with investors adopting a more cautious and highly selective approach to new investment opportunities. Against this backdrop, the team maintained its close client relationships through regular visits across the region, keeping existing and new clients informed of the status of the Bank's existing investment portfolio, and also its pipeline of potential new investment offerings.

Corporate Functions

HUMAN RESOURCES & SUPPORT

The main responsibility of the Human Resources department is to help the Bank achieve its strategic goals by the effective development and management of all employees. Accordingly, the HR team continued to provide a friendly and personalised service to enhance the professional development, career progression and well-being of staff. During FY 2018, the Bank supported employees to further develop their careers through attending relevant training courses and achieving professional accreditation. Skills training courses were provided by the Bahrain Institute of Banking & Finance and Tamkeen, together with in-house training programmes covering Islamic finance and information technology. Professional accreditation studies included areas such as Islamic commercial jurisprudence, Islamic finance, risk management and accountancy.

In line with its enduring commitment to support the career development of young Bahrainis, VCBank hosted summer internships for a number of local university students through which to provide them with practical work experience and a better understanding of Islamic banking activities.

INFORMATION TECHNOLOGY

VCBank maintained its critical investment in information technology (IT) during the year, with a continued focus on maintaining the quality, security and cost-effectiveness of its IT infrastructure and assets. Developments during FY 2018 include the ongoing introduction of a new 'virtual environment' which incorporates advanced monitoring of IT resources through pre-emptive alerting and enhanced fail-over and backup. In addition, the IT department installed an efficient and cost-effective shared IT system to cover the new extension of The Lounge serviced offices in the Bank's headquarters building. Specialist support was also provided to the Royal Hospital for Women in preparation for its planned soft opening. Physical security of the Venture Capital Bank Building in the Diplomatic Area of Manama was further enhanced by completion of the second phase of centralised monitoring, which will be followed by full coverage of the public car parking facility.

To support VCBank's business continuity plan, additional upgrades to the testing methodology employed for the data centre and disaster recovery site are currently being implemented. During the year, penetration testing of the Bank's cyber security system was successfully conducted by a member of the IT team who is a Certified Ethical Hacker.

INVESTOR RELATIONS

The objective of the Investor Relations department is to help clients and shareholders make the most informed investment decisions by providing up-to-date information about the Bank's operations and issuing regular portfolio reports. This standalone function, which reports directly to the Chief Executive Officer, works closely with the Investment division, Wealth Management and Post-Acquisition teams, 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). The semi-annual portfolio reports were enhanced during the year with the addition of Fair Values to provide clients with a clearer picture of the true worth of their investments.

VCBank is fully compliant with the regulatory requirements of the Common Reporting Standard (CRS). This is a new 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). The Head of Investor Relations was appointed as the CRS Reporting Officer to the CBB, and the first CRS report was submitted to the CBB by VCBank on 9 July 2018 covering the reporting period of 31st December 2017. External consultants have been appointed to provide on-going advisory support on CRS and FATCA compliance and reporting.

The Bank's client relationship management (CRM) system is in the process of being further upgraded to meet the changing needs of shareholders, investors and regulators. The upgrade will enable a range of additional enhancements, including the provision of new and more timely management reports and credit trails.

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 Eleven 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 (CBB). 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 three 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.

KEY DEVELOPMENTS DURING THE YEAR

- Following the sad demise of Mr. Khalid Al Mediheem on 21 February 2018, the Board of Directors comprised 11 Members at the end of the fiscal year.

- The Finance & Investment Committee was disbanded and its duties taken over by the Board of Directors.

- The Corporate Governance Committee was merged with the Nomination & Remuneration Committee to form the Nomination, Remuneration & Corporate Governance Committee.

- The Bank took necessary steps to ensure compliance with the new Shari'ah Governance Module issued by the CBB, which includes the recruitment of a Shari'ah Auditor.

- In line with a related CBB directive, the aggregate remuneration of Members of the Shari'ah Supervisory Board has been disclosed in the Bank's annual report.

- VCBank responded to three Consultation Papers circulated by the CBB: Proposed Enhanced Liquidity Risk Module for Islamic Bank Licensees; Proposed Internal Audit Requirements under the High-Level Controls Module; and Proposed Amendments to the Capital Adequacy Module.

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 will comprise 12 members, representing a mix of high-level professional skills and expertise, and with the majority being Independent Non-Executive Directors. The appointment of Directors is subject to the prior approval of the CBB and the shareholders, with classification of Directors in line with the definition stipulated in the CBB Rulebook. Board Members and their profiles are listed at the end of this Review.

SYSTEM FOR ELECTION AND TERMINATION OF DIRECTORS

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

BOARD COMMITTEES AND MEMBERSHIP BEFORE THE NEW CHANGES TO THE COMMITTEES STRUCTURE

Board Committee	Member's Name	Member's Position
Nomination & Remuneration Committee	Mohammed AlSarhan Saleh Al Shanfari Marwan Al Ghurair Yaser Al Jarallah	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 Yaser Al Jarallah	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

Corporate Governance Review continued

BOARD COMMITTEES AND MEMBERSHIP AFTER THE NEW CHANGES TO THE COMMITTEES STRUCTURE

Board Committee	Member's Name	Member's Position
Nomination, Remuneration & Corporate Governance Committee	Mohammed AlSarhan	Chairman
	Abdulfatah Marafie	Deputy Chairman
	Saleh Al Shanfari	Member
	Marwan Al Ghurair	Member
Audit Committee	Marwan Al Ghurair	Chairman
	Dr. Mohammed Jumaan	Deputy Chairman
	Adwan Aladwani	Member
	Yaser Al Jarallah	Member
Risk Committee	Saleh Al Shanfari	Chairman
	Yaser Al Jarallah	Deputy Chairman
	Sulaiman Al Rashid	Member
	Mohammed Al Athel	Member

BOARD AD-HOC COMMITTEES & MEMBERSHIP

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

NOMINATION, REMUNERATION & CORPORATE GOVERNANCE COMMITTEE

The mandate of the Nomination, Remuneration & Corporate Governance 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; and to assist the Board of Directors in fulfilling its responsibilities of corporate governance, developing and recommending changes from time to time in the Bank's corporate governance policy framework, oversight of the Bank's compliance with 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. It is also responsible for recommending the appointment of the external auditors, determining the audit fees and compensation, overseeing the auditors' work, and reviewing the Bank's compliance with legal requirements.

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.

DIRECTORS' ATTENDANCE JULY 2017 TO JUNE 2018

The Board of Directors and its Committees meet regularly towards fulfilling their responsibilities. A summary of the Board and its Committees meetings for FY 2018 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	Nomination, Remuneration & Corporate Governance Committee Meeting (NRCGC) ◆◆
Abdulfatah Marafie	6 of 6c	1 of 1c			1 of 1c		1 of 1
Mohammed AlSarhan	6 of 6		1 of 3*			1 of 1c	1 of 1c
Abdullatif Janahi	6 of 6	1 of 1				1 of 1	1 of 1
Saleh Al Shanfari	6 of 6		3 of 3c			1 of 1	1 of 1
Marwan Al Ghurair	6 of 6			4 of 4c		1 of 1	1 of 1
Mohammed Alkandari	6 of 6	1 of 1					
Khalid Al Mediheem+	1 of 6						
Adwan Aladwani	6 of 6			4 of 4			
Dr. Mohammed Jumaan	5 of 6			4 of 4	1 of 1		
Sulaiman Al Rashid	2 of 6		1 of 3**				
Mohammed Al Athel	3 of 6	1 of 1	1 of 3***				
Yaser Al Jarallah	6 of 6		3 of 3	2 of 4****		1 of 1	

* Mr. Mohammed Al Sarhan joined the NRCG Committee after the restructuring of the committees.
** Mr. Sulaiman Al Rashid joined the Risk Committee after the restructuring of the committees.
*** Mr. Mohammed Al Athel joined the Risk Committee after the restructuring of the committees.
**** Mr. Yaser Al Jarallah joined the Audit Committee after the restructuring of the committees.

c Denotes Chairman
\+ Deceased on 21 February 2018

◆ F&IC disbanded and forwarded all their duties directly to the board
◆◆ Board decided at its 24th October 2017 meeting to merge the Nomination & Remuneration and Corporate Governance Committees to become the NRCGC subject to CBB's approval

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 May 2018, the Bank conducted a strategy meeting in Istanbul 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 NRCG Committee 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.

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, Commerce & Tourism, 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 Nomination, Remuneration & 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 combating money laundering and the financing of terrorism and proliferation; 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.

Corporate Governance Review continued

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 is responsible for ensuring that the risks inherent in all banking activities are managed in line with the Board-approved risk appetite of VCBank. 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 an annual 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 overall objective of the RCSA is to continuously enhance the quality of all activities undertaken by the functional teams. 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.

SHARI'AH COORDINATION & REVIEW

The Shari'ah Coordination & Review department reports directly to the Bank's Shari'ah Supervisory Board, and administratively to the CEO. 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 investment activities, 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 the year, the department conducted a Shari'ah training programme in coordination with Human Resources with the aim of enhancing employees' awareness about the basic fundamentals of Islamic finance.

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 Eleven 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- 1.3.4:

Individual Board members' attendance of at least 75% of all Board meetings in a given financial year (i.e. 3 Board Members were not able to attend 75% of the Board meetings during the financial year).

VCBANK'S EXPLANATION:

The inability of one of the members to attend at least 75% of all Board meetings was due to exceptional circumstance owing to a long illness and subsequent demise. May God rest his soul in eternal peace. The inability of two other members to attend at least 75% of all Board meetings was due to unexpected business travel arrangements.

GUIDANCE HC- 9.2.4B:

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

VCBANK'S EXPLANATION:

It is worth noting that VCBank established a dedicated Nomination, Remuneration & Corporate Governance Committee (NRCGC), as part of its commitment to promote good governance. While the NRCGC 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 NRCGC 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

BOARD AND EXECUTIVE MANAGEMENT REMUNERATION

The Nomination, Remuneration & Corporate Governance Committee (NRCGC) 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 NRCGC 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, were updated in fiscal year 30 June 2017 based on CBB comments and NRCGC review; and the updated policy and procedures have been approved by the Board which was delegated this responsibility by the AGM 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 NRCGC 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 NRCGC and subject to approval by the AGM. Board remuneration for the year ended 30 June 2018 is disclosed in the table on page 34. The members of the NRCGC received sitting fees of USD 16,000 during the year ended 30 June 2018 (2017: USD 20,000).

Shari'ah Supervisory Board (SSB) compensation comprises a fixed annual fee plus travel and related costs for their services. SSB remuneration for the year ended 30 June 2018 is disclosed in the table on page 34.

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 NRCGC 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.

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.

Corporate Governance Review continued

SUMMARY OF COMPENSATION FOR THE FISCAL YEAR ENDED 30 JUNE 2018

Particulars	No.	Fixed	Variable*		Total $'000
		Upfront	*Upfront*	*Deferred*	
Members of the Board	12	386	-	-	386
Members of Shari'ah Supervisory Board	3	94	-	-	94
Approved persons in business lines	4	1,774	-	-	1,774
Approved persons in control & support	6	762	-	-	762
Other staff	45	2,834	-	-	2,834
Total		**5,850**	-	-	**5,850**

* There was no variable remuneration for the year ended 30 June 2018. 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 2018

Deferred awards	No. of units '000	NAV $	Value $'000
Opening balance	**792**	**0.90**	**711**
Awarded during year	-	-	-
Paid during year	(306)	0.90	(274)
Changes in value during year	-	(0.03)	(13)
Closing balance	**487**	**0.87**	**424**

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.

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
Members of Shari'ah Supervisory Board	3	92	-	-	92
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		5,855	-	-	5,855

* 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

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 M R MARAFIE
Chairman

State of Kuwait
Independent & Non-Executive Director
Elected 6 October 2005
(He was Deputy Chairman from 6/10/2005 – 5/10/2016)
38 years' experience

VCBank Committees: Chairman of Real Estate Committee; Deputy Chairman of Nomination & Remuneration & Corporate Governance 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).

Vice Chairman: Mohammed Rafie Husain Foundation, Kuwait.

Board Member: Amar Finance and Leasing Company, Kuwait; Hajar Tower Real Estate Company, Kuwait; Al-Jahra Touristic Company, Kuwait; Al Salmiya Group for Enterprise Development Company, Kuwait; United Entertainment and Tourism Company, Kuwait; Bayan Realty Company, KSA; Goknur Foods Import Export Trading & Production Company, Turkey.

MOHAMMED ABDULAZIZ ALSARHAN
Deputy Chairman

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

VCBank Committees: Chairman of Nomination & Remuneration & Corporate Governance Committee; Chairman of Exit Committee.

Chairman: Al Safi Danone, Saudi Arabia, IKEA in Saudi Arabia and Bahrain, Flow Logistics Company, Saudi Arabia

Vice Chairman: National Shipping Company of Saudi Arabia.

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

Board Member: Saudi Fresh Dairy Board; Qatar Engineering & Construction Company (QCON).

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

ABDULLATIF MOHAMED JANAHI
Board Member

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

Chairman: Jordan Al Abyad Fertilizers and Chemicals Company (JAFCCO); German Orthopaedic Hospital, Bahrain; Lemissoler Maritime Company.

Deputy Chairman: Challenger Oil Drilling Company; Goknur Foods Import Export Trading & Production Company, Turkey.

Board Member: Qatar Engineering & Construction Company (QCON); Bayan Realty Company, Saudi Arabia; Saudi Venture Capital Investment Company (SVCIC); Regent's Crescent, London; Great Harbour, Bahrain; TOPSU TARIM HAYVANCILIK GIDA SANAYİ VE TİCARET ANONİM ŞİRKETİ (Turkey Farmland); The World Development Company, Dubai; Bahrain Association of Banks (BAB).

MARWAN AHMAD AL GHURAIR
Board Member

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

VCBank Committees: Chairman of Audit Committee; Member of Nomination & Remuneration & Corporate Governance 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
30 years' experience

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

Chairman: Anaama Poultry, Oman; Global Computer Services Company, Oman.

Vice-Chairman: Albasheyer Meat Co.

Chairman of the Executive Committee: Mazoon Dairy, 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; Global Omani Real Estate Development Company (GLOREI); Goknur Foods Import Export Trading & Production Company, Turkey; Siraj RealEstate; KMC(Oman) Contracting Company.

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; Oman Economic Society, Oman Environment Society.

ADWAN MOHAMMAD ALADWANI
Board Member

State of Kuwait
Non-Independent and Non-Executive Director
Elected 8 December 2015
43 years' experience

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

Chairman: Kuwait Resorts Company, Kuwait; 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: TOPSU TARIM HAYVANCILIK GIDA SANAYİ VE TİCARET ANONİM ŞİRKETİ (Turkey Farmland); Mozon Investment Holding Company, Morocco.

KHALID ABDULAZIZ AL MEDIHEEM
(Sadly passed away on 21st February 2018. May God rest his soul in eternal peace.)

Board Member

Kingdom of Saudi Arabia
Independent and Non-Executive Director
Elected 23 January 2013
45 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
18 years' experience

VCBank Committees: Deputy Chairman of Exit Committee, Member of Real Estate 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; EYAS for Higher & Technical Education Company, Kuwait.

Corporate Governance Review continued

DR. MOHAMMED AHMED JUMAAN
Board Member

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

VCBank Committees: Deputy Chairman of Audit 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.

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

Senior Member: Institute of Electrical and Electronics Engineering.

Previous Board Member: Eskan Bank, Bahrain Development Bank, Olive VFM Company B.S.C.

Chartered Professional Engineer

SULAIMAN ABDULRAHMAN AL RASHID
Board Member

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

VCBank Committees: Deputy Chairman of Real Estate Committee, Member of Risk 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; Specialist Medical Company, Saudi Arabia; Member of Real Estate Committee – Riyadh Chamber of Commerce & Industry.

MOHAMMED SALEH AL ATHEL
Board Member

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

VCBank Committees: Member of Risk Committee, Member of Exit Committee

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

YASER MOHAMMED AL JARALLAH
Board Member

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

VCBank Committees: Deputy Chairman of Risk Committee, Member of Audit Committee.

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

Board Member: Bin Jarallah 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

Chairman of the Executive Management Committee
Joined VCBank in 2005
35 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
19 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
33 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
36 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
Head of Human Resources & Support

Member of the Executive Management Committee
Joined VCBank in 2005
29 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.

ASYA HASAN, CPA
Head of Internal Audit

Member of the Executive Management Committee
Joined VCBank in 2015
20 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.

HUDA FAISAL JANAHI, CIPA, APRM
Head of Risk Management

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

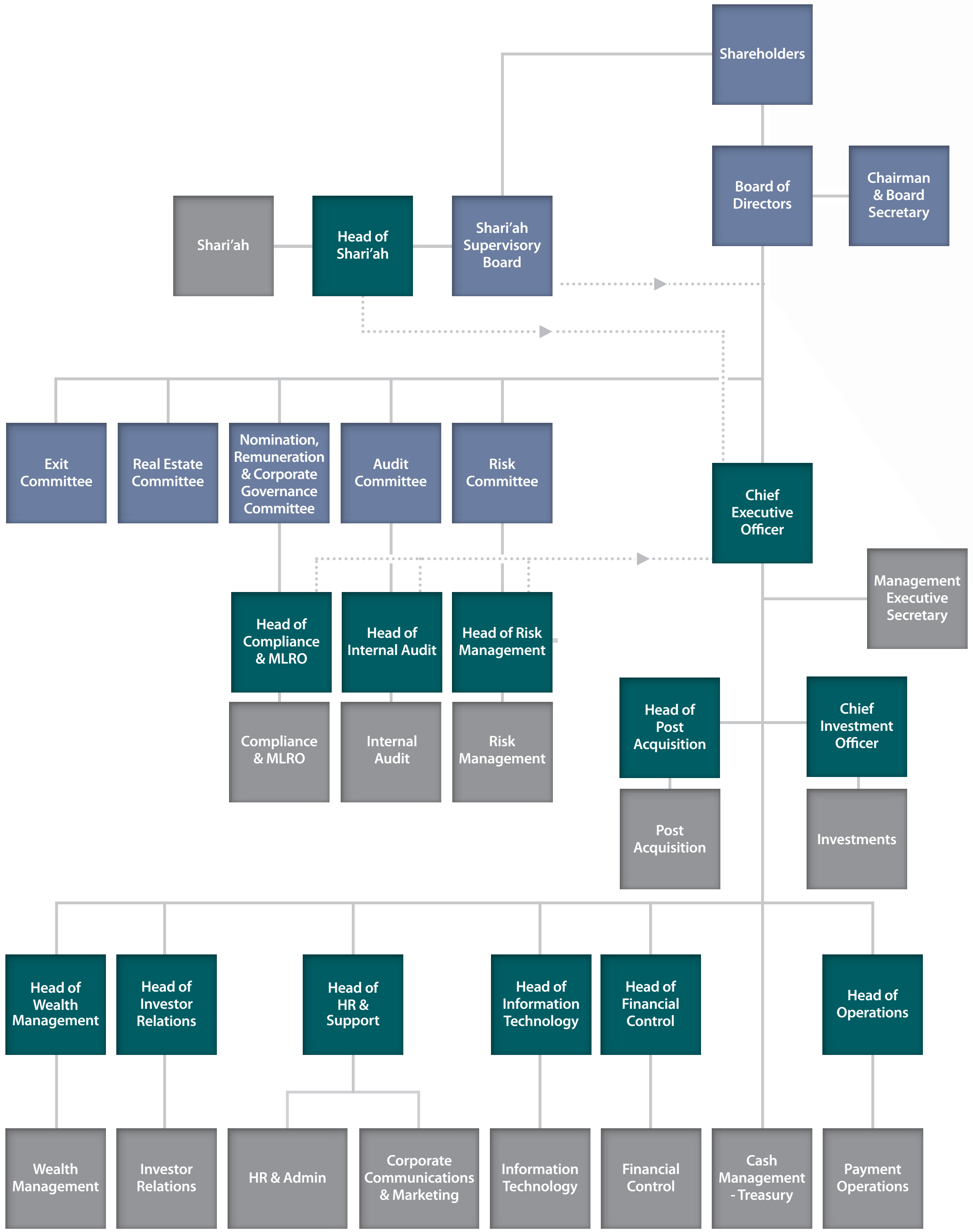
Huda Janahi's background encompasses risk management, internal audit, investment placement and treasury operations. She initially joined VCBank as a member of the Wealth Management team before transferring to the Internal Audit department in 2010. Two years later, she moved to the Risk Management department, where she was promoted to Acting Head in 2016 and to her current position in 2018. Prior to joining VCBank, she worked in the Treasury Back Office at Citibank in Bahrain. Huda is a Certified Islamic Public Accountant and an Associate of the Professional Risk Managers' International Association, USA. She holds a BSc degree in Accounting from the University of Bahrain.

MOHAMED KHALID ATEEQ, CAMS, AMLCA, INT. DIP (COMP)
Head of Compliance & MLRO

Member of the Executive Management Committee
Joined VCBank in 2018
13 years' experience

Mohamed Ateeq has specialised experience in compliance, anti-money laundering and investment administration. Prior to joining VCBank, he was Head of Compliance with Eazy Financial Services, a Bahraini fintech company specialising in biometric technologies. Before this, he was Group Head of Compliance and MLRO at Al Salam Bank - Bahrain, having previously joined the bank as a Senior Analyst in Investment Administration. He started his career as an Accountant in the Investment department of Arcapita Bank, Bahrain. Mohamed is a Certified Anti-Money Laundering Specialist from ACAMS, Miami, Florida, USA; an Anti-Money Laundering Certified Associate from Florida University in cooperation with the Florida Bankers Association, USA; and holds an International Diploma in Compliance from the International Compliance Association, University of Manchester Business School, UK. He graduated from the University of Bahrain with a Bachelor's degree in Banking & Finance.

Governance and Organisation Structure



The Bank's independent governance control functions assist the Board of Directors and Executive Management in upholding the highest standards of regulatory compliance and industry best practice.

Contents

VENTURE CAPITAL BANK

In the name of Allah the Merciful, the Compassionate

Report of the Shari'ah Supervisory Board for period from 01/07/2017 to 30/06/2018

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 01/07/2017 to 30/06/2018.

It has studied and discussed, with the Bank's management, the financial statements and the income statement for the period from 01/07/2017 to 30/06/2018.

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 have directed the Bank to exit some historical investments, in which we found some non-Sariah compliance, knowing that those investments are old and not new and should be exited as soon as possible. SSB were informed that Bank's management endeavored to comply with this decision, however due to market circumstances and local and international changes they weren't able to achieve the requirement during the year 2017-2018

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

Executed on Saturday, 19/01/1440 H, corresponding to the 29/09/2018

Venture Capital Bank, P.O. Box 11755, Manama, Kingdom of Bahrain
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Licensed as an Islamic Wholesale Bank by the CBB.

Report of the Auditors

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

Report on the Audit of 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 2018, 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 consolidated financial position of the Group as of 30 June 2018, the results of its consolidated operations, its consolidated cash flows, consolidated 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 2018 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 2018
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

As at 30 June 2018

	Note	***30 June 2018 USD '000***	*30 June 2017 USD '000*
ASSETS			
Balances and placements with banks	8	**7,326**	7,571
Investments	9	**151,516**	161,354
Investments in associates and joint venture accounted under the equity method	10	**26,666**	26,960
Murabaha financing to investee companies	11	**38,597**	34,750
Receivables	12	**33,420**	16,630
Funding to project companies	13	**3,025**	-
Other assets	14	**23,795**	27,610
Property and equipment	15	**7,816**	8,077
TOTAL ASSETS		**292,161**	282,952
LIABILITIES			
Islamic financing payables	16	**109,155**	101,674
Employee accruals		**2,092**	2,723
Other liabilities	17	**15,456**	7,910
Total liabilities		**126,703**	112,307
EQUITY			
Share capital	18	**190,000**	190,000
Statutory reserve	18	**5,859**	5,859
Foreign currency translation reserve		**(71)**	(130)
Accumulated losses		**(30,330)**	(25,084)
Total equity		**165,458**	170,645
TOTAL LIABILITIES AND EQUITY		**292,161**	282,952
OFF BALANCE SHEET ITEMS			
Equity of investment account holders		**2,106**	2,744

Abdulfatah Mohd. Rafie Marafie
Chairman

Abdullatif M. Janahi
Board Member
and Chief Executive Officer

The attached notes 1 to 36 form part of these consolidated financial statements.

Consolidated Statement of Income

For the year ended 30 June 2018

	Note	*30 June 2018 USD '000*	*30 June 2017 USD '000*
REVENUE			
Income from investment banking services	19	**1,218**	4,795
Gain on sale of investment	20	**6,338**	-
Finance income	21	**4,785**	12
Dividend income		**1,406**	834
Rental and other income	22	**2,447**	2,945
Total revenue		**16,194**	8,586
OTHER LOSSES			
Fair value losses on investments at fair value through profit or loss	23	**(3,833)**	(38,266)
Total income (loss)		**12,361**	(29,680)
EXPENSES			
Staff costs	24	**5,745**	6,194
Travel and business development expenses		**431**	529
Legal and professional fees		**773**	1,357
Finance expense	21	**5,623**	6,141
Depreciation	15	**385**	413
Other expenses	26	**3,026**	3,978
Total expenses		**15,983**	18,612
LOSS BEFORE IMPAIRMENT PROVISIONS AND SHARE OF LOSSES OF ASSOCIATES AND JOINT VENTURE		**(3,622)**	(48,292)
Impairment provisions charged	25	**(1,492)**	(6,448)
Recovery of impaired receivables	25	**-**	1,344
Share of losses of associates and joint venture - net	10	**(132)**	(250)
NET LOSS FOR THE YEAR		**(5,246)**	(53,646)

Abdulfatah Mohd. Rafie Marafie
Chairman

Abdullatif M. Janahi
Board Member
and Chief Executive Officer

The attached notes 1 to 36 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2018

	Note	*Share capital USD '000*	*Statutory reserve USD '000*	*Foreign currency translation reserve USD '000*	*Accumulated losses USD '000*	*Total USD '000*
Balance at 1 July 2017		190,000	5,859	(130)	(25,084)	170,645
Net loss for the year		-	-	-	(5,246)	(5,246)
Foreign currency translation difference on investment in an associate	10	-	-	59	-	59
Balance at 30 June 2018		**190,000**	**5,859**	**(71)**	**(30,330)**	**165,458**
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	10	-	-	(3)	-	(3)
Balance at 30 June 2017		190,000	5,859	(130)	(25,084)	170,645

The attached notes 1 to 36 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2018

	Note	30 June 2018 USD '000	30 June 2017 USD '000
OPERATING ACTIVITIES			
Net loss for the year		**(5,246)**	(53,646)
Adjustments for non-cash items:			
Gain on sale of investments		**(5,263)**	-
Share of results of associates and joint venture accounted under the equity method	10	**132**	250
Impairment provisions charged - net	25	**1,492**	6,448
Depreciation	15	**385**	413
Dividend income		**(1,406)**	(834)
Fair value losses on investments at fair value through profit or loss - net	23	**3,833**	38,266
Operating loss before changes in operating assets and liabilities		**(6,073)**	(9,103)
Changes in operating assets and liabilities:			
Investments		**10,756**	(16,453)
Investments in associates and joint venture accounted under the equity method		**(192)**	616
Murabaha financing to investee companies		**(3,847)**	6,243
Receivables		**(16,790)**	20,429
Funding to project companies		**(3,025)**	4,231
Other assets		**3,695**	(10,051)
Employee accruals		**(631)**	(1,023)
Other liabilities		**7,546**	3,383
Net cash used in operating activities		**(8,561)**	(1,728)
INVESTING ACTIVITIES			
Dividends received		**900**	1,136
Property and equipment - net	15	**(124)**	(56)
Net cash from investing activities		**776**	1,080
FINANCING ACTIVITY			
Islamic financing payables		**7,481**	(60)
Net cash from (used in) financing activity		**7,481**	(60)
Foreign currency translation adjustments		**59**	(3)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(245)**	(711)
Cash and cash equivalents at beginning of the year		**7,571**	8,282
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**7,326**	7,571
Comprising:			
Balances in current and call accounts	8	**5,285**	7,441
Short-term placements	8	**2,041**	130
		7,326	7,571

The attached notes 1 to 36 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 2018

2018	**Balance as at 1 July 2017 USD '000**	**Movements during the year: Distribution USD '000**	**Fair value movement / (impairment) USD '000**	**Net loss USD '000**	**Bank's fees as an agent USD '000**	**Balance as at 30 June 2018 USD '000**
GCC Pre IPO Fund	**2,744**	**(91)**	**(111)**	**(436)**	-	**2,106**

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

	2018 USD '000	*2017 USD '000*
Investment in equities	**2,040**	2,742
Dividends receivable	**64**	-
Balances with banks	**2**	2
Total as at 30 June	**2,106**	2,744

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 36 form part of these consolidated financial statements.

1 INCORPORATION AND ACTIVITIES

Incorporation
Venture Capital Bank B.S.C. (c) ("the Bank") was incorporated in the Kingdom of Bahrain on 26 September 2005 as a closed shareholding company under commercial registration (CR) number 58222 issued by the Ministry of Industry, 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 27 September 2018.

2 BASIS OF PREPARATION

Statement of compliance
The consolidated financial statements of the Group have been prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization (AAOIFI) for Islamic Financial Institutions and in conformity with Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives and the terms of the Bank's memorandum and articles of association. In accordance with the requirements of AAOIFI, for matters which are not covered by AAOIFI standards, the Group uses relevant International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB") provided it does not conflict with the Shari'a Rules and Principles and the conceptual framework of AAOIFI.

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

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries as at 30 June each year. A subsidiary is an entity that the Group has the power to control so as to obtain economic benefits and therefore excludes those held in a fiduciary capacity. The financial statements of the subsidiaries are prepared using consistent accounting policies.

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

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

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

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

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

Details of estimates and related sensitivity analysis are disclosed in notes 35 and 36.

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 2017
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements, for the year ended 30 June 2017, except for the adoption of new standards and interpretations effective for the financial year beginning on or after 1 January 2017.

FAS 27 - Investment Accounts
FAS 27 has replaced FAS 5 - 'Disclosures of Bases for Profit Allocation between Owner's Equity and Investment Account Holders' and FAS 6 - 'Equity of Investment Account Holders and their Equivalent'. Due to the adoption of this standard certain disclosures with respect to investment account holders and bases of profit allocation are enhanced without having any significant impact on these consolidated financial statements of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New standards, amendments and interpretations issued but not yet effective for adoption
The AAOIFI Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of the relevant standards and interpretations issued, which the Group reasonably expects to be applicable at a future date.

FAS 30 - Impairment, credit losses and onerous commitments
In November 2017, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued Financial Accounting Standard (FAS) 30 - Impairment, credit losses and onerous commitments, the standard supersedes the earlier FAS 11 "Provisions and Reserves" effective from the financial periods beginning on or after 1 January 2020, with early adoption permitted. The Group has set up a multidisciplinary implementation team with members from its Finance and Investment Post-acquisition department to achieve a successful and robust implementation. The project is managed by the Head of Financial Control Department and Head of Post Acquisition. The Group will early adopt FAS 30 at 1 July 2018 and currently is in the final phase of implementation, where by parallel run exercise is under process together with various level of validations.

Credit losses approach
The Group will recognize credit losses allowances based on a forward-looking Expected Credit Loss (ECL) approach on all established receivables and off-balance sheet exposures including guarantees, letters of credit, promise-based foreign exchange and other similar positions.

The Group will categorise its assets subject to credit losses into the following three stages in accordance with the FAS 30 methodology:

- **Stage 1** – Performing assets: asset(s) that has not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 months ECL.
- **Stage 2** – Underperforming assets: asset(s) that has significantly deteriorated in credit quality since origination. The credit losses will be recorded based on life time ECL.
- **Stage 3** – Impaired assets: For asset(s) that are impaired, the Group will recognize the impairment allowance based on life time ECL.

4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

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

Credit losses approach (continued)
The Group will also consider the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs. The forward-looking information will include elements such as macroeconomic factors, e.g., fiscal deficit, GDP growth and other relevant economic factors.

To evaluate a range of possible outcomes, the Group intends to formulate various scenarios. For each scenario, the Group will derive an ECL and apply a probability weighted approach to determine the impairment allowance in accordance with the accounting standards requirements.

Impairment approach
The Group will recognize impairment losses on all other financing and investment assets and exposures subject to risks other than credit risk (other than inventories) and investments carried at fair value through income statement.

The impairment losses will be measured by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount will be the higher of its fair value less costs of disposal and its value in use.

Net realizable value approach
The Group will recognize impairment on inventories recognized as a result of financial transactions which are based on a trade based structure e.g. deferred payment sales including Murabaha, Salam or Istisna'a.

The Group subsequent to the initial recognition, will measure all inventories will be measured at the lower of cost and net realizable value. The net realisable value, is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale, considering the factors specific to the Group.

Provision for onerous contract or commitment to acquire an asset
The Group will recognise provision when the Group is obligated to acquire an asset under a future commitment or contracts permissible to be entered in the future, and it is expected that the obligation under the contract or commitment is higher than the economic benefits expected to flow through acquisition of such asset. In such situation, the Group will create a provision on this account reflecting the expected losses arising on such transaction.

Expected impact
The Group has reviewed its receivables and assets and is expecting the following impact from the early adoption of FAS 30 on 1 July 2018:

According to transitional provisions for initial application of FAS 30, the Group is allowed to recognise any difference between previous carrying amount under FAS 11 and the carrying amount of losses that is attributable to the shareholders at the beginning of the annual reporting period (that includes the date of initial application) in opening retained earnings, and the cumulative charge attributable to shareholders, including unrestricted investment account holders, related to previous periods shall be adjusted with an allocation from the respective Investment Risk Reserve (and from the respective Profit Equalization Reserve in case of a shortfall) with due Shari'ah approvals. In case of any remaining shortfall, a temporary transfer with Shari'ah approval may be made from shareholders' equity.

Based on 30 June 2018 data and the current implementation status of FAS 30, the Group estimates the adoption of FAS 30 to lead to an overall reduction in the Group's total shareholders' equity ranging between 2% - 3%. This reduction is predominately driven by the impairment requirements of FAS 30.

The new standard also introduces disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption.

4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

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

Governance and controls
The Group has set up an internally managed FAS 30 programme that includes subject matter experts on methodology, data sourcing and modelling and reporting. The Group's work to date has covered performing and developing an impairment methodology to support the calculation of the Expected Credit Loss (ECL) allowance. The Group developed its approach for assessing significant increase in credit risk ("SICR"), incorporating forward looking information, including macro-economic factors and preparing the required assessment worksheet programme. The Group has performed a full end to end parallel run based on 30 June 2018 data to assess procedural readiness. Overall governance of the program's implementation is through Finance Control, Risk and Internal Audit. The Group is in the process of enhancing its governance framework to implement appropriate validations and controls over new key processes and significant areas of judgment such as SICR determining and applying forward looking information in multiple economic scenarios and computation of ECL.

Caveat:
The estimated decrease in shareholders' equity includes the impact of both balance sheet changes and the increase to credit impairment provisions compared to those applied at 30 June 2018 under FAS 11. The assessment above is a point in time estimate and is not a forecast. The actual effect of the implementation of FAS 30 on the Group could vary significantly from this estimate. The Group continues to refine models, methodologies and controls, and monitor developments in regulatory rule making in advance of FAS 30 early adoption on 1 July 2018. Although parallel runs were carried out in the latter half of the Group's current financial year, the new systems and associated controls in place have not been operational for a more extended time. As a result, the Group has not finalized the testing and assessment of controls over its new IT systems and changes to its governance framework. All estimates are based on the Group's current interpretation of the requirements of FAS 30, reflecting industry guidance and discussions to date.

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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial assets and liabilities

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

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

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

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

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

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

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

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

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

(iii) Measurement principles
Financial assets and liabilities are measured either at fair value, amortised cost or, in certain cases, cost.

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

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

5 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

(c) Investments in real estate

Under FAS 26 Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, an entity has the option to adopt either the fair value model or the cost model and shall apply that policy consistently to all of its investment in real estate. The Group has opted for the cost model.

(d) Investments

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

(i) Classification

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

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

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

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

Available-for-sale investments are financial assets that are not investments carried at fair value through profit or loss or held-to-maturity or loans and receivables and are intended to be held for an indefinite period of time and that may be sold in response to need for liquidity or in response to change in market conditions. These include investments in certain quoted and unquoted equity securities.

(ii) Initial recognition

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

(iii) Subsequent measurement

Subsequent to initial recognition, investments at fair value through profit or loss and available-for-sale investments are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at fair value through profit or loss are recognised in the consolidated statement of income in the period in which they arise. Gains and losses arising from a change in the fair value of available-for-sale investments are recognised in the consolidated statement of changes in equity under 'Investment fair value reserve' within equity. When available-for-sale investments are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in equity is transferred to the consolidated statement of income. Available-for-sale investments which do not have a quoted market price or other appropriate methods from which to derive reliable fair values are stated at cost less impairment allowances.

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

5 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

(d) Investments (continued)

(iv) Fair value measurement principles

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

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

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

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

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

(v) Impairment of investments

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

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

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

(e) Other financial assets carried at amortised cost

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investment in associates accounted under the equity method
The Group's investment in its associates, being entities in which the Group has significant influence, are accounted for using the equity method.

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

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

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

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

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

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

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

The Group has an interest in a joint venture whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers.

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) 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.

5 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

(n) **Share capital and statutory reserve**

Share capital
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.

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.

(v) Rental income
Rental income is recognised in the statement of comprehensive income on a straight-line basis over the term of the operating lease contract.

(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.

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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.

(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 28.

(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.

6 INVESTMENT IN SUBSIDIARIES

Wholly owned subsidiaries of the Group are consolidated as follows. There is no change in the percentage holding of the subsidiaries during the year.

Name of subsidiary	Year of incorporation	% holding	Country of incorporation	Principal activities
Gulf Projects Company W.L.L.	1998	100%	Kingdom of Bahrain	To own an interest in and operate the Venture Capital Bank Building.
The Lounge Serviced Offices Company W.L.L.	2007	100%	Kingdom of Bahrain	To own, operate and manage serviced offices in Bahrain and regionally.
GMCB Co. W.L.L. *	2008	50.59%	Kingdom of Bahrain	To invest in a medical facility in the Kingdom of Bahrain.

* The Group's investment in GMCB Co. W.L.L. is designated as investment at fair value through profit or loss as allowed by IFRS 10.

7 CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

At 30 June 2018	***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	-	-	**7,326**	**7,326**
Investments	**99,697**	**51,819**	-	**151,516**
Murabaha financing to investee companies	-	-	**38,597**	**38,597**
Receivables	-	-	**33,420**	**33,420**
Funding to project companies	-	-	**3,025**	**3,025**
Other assets	-	-	**23,704**	**23,704**
TOTAL FINANCIAL ASSETS	**99,697**	**51,819**	**106,072**	**257,588**
LIABILITIES				
Islamic financing payables	-	-	**109,155**	**109,155**
Other liabilities	-	-	**12,797**	**12,797**
TOTAL FINANCIAL LIABILITIES	-	-	**121,952**	**121,952**
OFF BALANCE SHEET ITEMS				
Equity of investment account holders	-	**2,040**	**66**	**2,106**

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
Funding to project companies	-	-	-	-
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

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8 BALANCES AND PLACEMENTS WITH BANKS

	30 June 2018 USD '000	*30 June 2017 USD '000*
Balances in current and call accounts	**5,285**	7,441
Short-term placement	**2,041**	131
Less: Deferred profits	**-**	(1)
	7,326	7,571

Short-term placement comprises wakala and mudaraba deal with a locally incorporated Islamic bank at expected profit rate of 2% and 1.85% (2017: 1.5%) and maturing within 90 days of initial placement.

9 INVESTMENTS

	30 June 2018 USD '000	*30 June 2017 USD '000*
Investments at fair value through profit or loss		
Quoted equities held for trading	**3,951**	4,582
Unquoted:		
Equities	**89,112**	93,398
Fund	**6,634**	7,634
	99,697	105,614
Available-for-sale investments ("AFS")		
Quoted equities	**-**	1,305
Unquoted equities	**37,859**	47,315
Short term liquidity certificates	**13,960**	7,120
	51,819	55,740
	151,516	161,354

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 2018 USD '000	*30 June 2017 USD '000*
Real estate projects	**34,735**	27,012
Business development projects	**12,772**	12,761
Healthcare projects	**3,730**	14,080
Financial services	**582**	582
	51,819	54,435

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

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

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

Name of associate	*Nature of business*	*Country of incorporation*	*% holding 30 June 2018*	*% holding 30 June 2017*
Mozon Holding SA	Investment development	Kingdom of Morocco	**20.00**	20.00
Dari Holdings (under liquidation)	Real estate development	Kingdom of Bahrain	**43.00**	43.00
Venture Capital Fund Bahrain	Small & medium enterprises investment fund	Kingdom of Bahrain	**30.00**	30.00

Name of joint venture	*Nature of business*	*Country of incorporation*	*% holding 30 June 2018*	*% holding 30 June 2017*
Global Real Estate Co. W.L.L.	Real estate development	Kingdom of Bahrain	**50**	50

The carrying value comprises:	*30 June 2018 USD '000*	*30 June 2017 USD '000*
Associates	**1,733**	2,084
Joint venture	**24,933**	24,876
	26,666	26,960

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

	30 June 2018 USD '000	*30 June 2017 USD '000*
At 1 July	**26,960**	28,046
Acquisitions / additional investments during the year	**133**	-
Capitalisation of funding*	**-**	302
Foreign currency differences	**59**	(2)
Recalssified as investment in subsidiary at fair value through profit and loss	**-**	(916)
Impairment provisions charged	**(354)**	(220)
Share of losses of associates and joint venture, net	**(132)**	(250)
At 30 June	**26,666**	26,960

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

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

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

	30 June 2018 USD '000	*30 June 2017 USD '000*
Total assets	**76,084**	77,459
Total liabilities	**22,000**	22,664
Total revenues for the year	**117**	345
Total net loss for the year	**(112)**	(233)

11 MURABAHA FINANCING TO INVESTEE COMPANIES

	30 June 2018 USD '000	*30 June 2017 USD '000*
Financing to an investee companies in the following sectors:		
Shipping	**37,199**	34,750
United Kingdom real estate	**1,398**	-
At 30 June	**38,597**	34,750

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 2018 USD '000	*30 June 2017 USD '000*
Receivable from investment banking services	**26,384**	11,031
Receivable on sale of investment	**11,329**	10,167
	37,713	21,198
Less: Specific impairment provision	**(4,293)**	(4,568)
	33,420	16,630

Refer to note 25 for movement in impairment provision.

13 FUNDING TO PROJECT COMPANIES

	30 June 2018 USD '000	*30 June 2017 USD '000*
Gross funding	**3,095**	12,067
Less: Impairment provision	**(70)**	(12,067)
	3,025	-

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. During the year fully provisioned funding totalling USD 11,997 thousand was written off following the formal liquidation of the project company concerned. Refer to note 25 for movement in impairment provision.

14 OTHER ASSETS

	30 June 2018 USD '000	30 June 2017 USD '000
Advances to acquire investments	**21,773**	25,232
Project costs recoverable	**1,864**	1,871
Dividend receivable	**904**	398
Other receivables	**3,309**	4,442
Less: Impairment provision	**(4,055)**	(4,333)
	23,795	27,610

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 2017	10,098	1,804	4,697	496	17,095
Additions during the year	-	10	114	-	124
At 30 June 2018	**10,098**	**1,814**	**4,811**	**496**	**17,219**
Depreciation					
At 1 July 2017	2,088	1,764	4,697	469	9,018
Charge for the year	278	42	55	10	385
At 30 June 2018	**2,366**	**1,806**	**4,752**	**479**	**9,403**
Net book value at 30 June 2018	**7,732**	**8**	**59**	**17**	**7,816**
Net book value at 30 June 2017	8,010	40	-	27	8,077

16 ISLAMIC FINANCING PAYABLES

		30 June 2018 USD '000	30 June 2017 USD '000
Medium term Islamic financing payables	16.1	**70,687**	70,687
Short term Islamic financing payables	16.2	**38,468**	30,987
		109,155	101,674

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% (2017: 2.75%).

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17 OTHER LIABILITIES

		30 June 2018 USD '000	30 June 2017 USD '000
Accounts payable	17.1	**12,797**	4,825
Provisions and accruals		**1,332**	1,552
Deferred income		**1,224**	1,272
Other		**103**	261
		15,456	7,910

17.1 Account payable as at 30 June 2018 includes a short term advance of USD 10 million obtained from an investor at a profit rate of approximately 10% per annum which was fully settled subsequent to the year end.

18 SHARE CAPITAL

	30 June 2018 USD '000	30 June 2017 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. During the year, there has been no transfer to statutory reserve made for 2018 until the Group's accumulated losses is cleared and profits are achieved. 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. There has been no movement in the reserve during the years ended 30 June 2018 and 30 June 2017. As at 30 June 2018, the balance in the reserve is nil (30 June 2017: USD nil). Upon disposal of such assets, the related cumulative gains or losses are transferred to the consolidated statement of income.

19 INCOME FROM INVESTMENT BANKING SERVICES

	30 June 2018 USD '000	30 June 2017 USD '000
Investment banking and structuring income	**1,000**	-
Investment management and arrangement fees	**218**	4,795
	1,218	4,795

20 GAINS FROM SALE OF INVESTMENTS

	30 June 2018 USD '000	30 June 2017 USD '000
Gain on sale of available-for-sale investments - net	4,237	-
Gain on sale of investment in associate	938	-
Gain on sale of investment designated at fair value through profit or loss	1,163	-
	6,338	-

21 FINANCE INCOME AND EXPENSE

	30 June 2018 USD '000	30 June 2017 USD '000
Finance income		
Income from placements with financial institutions	133	12
Income from funding to project companies	4,652	-
	4,785	12
Finance expense		
Cost of Islamic financing payables	(5,623)	(6,141)
Net finance expense	(838)	(6,129)

22 RENTAL AND OTHER INCOME

	30 June 2018 USD '000	30 June 2017 USD '000
Rental and property management income	544	1,621
Other income	1,903	1,324
	2,447	2,945

Other income mainly comprises income from yielding real estate investments and liquidity program certificates, plus cost recoveries.

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

	30 June 2018 USD '000	30 June 2017 USD '000
Trading securities	(631)	(456)
Investments designated at fair value through profit or loss - net	(3,202)	(37,810)
	(3,833)	(38,266)

24 STAFF COSTS

	30 June 2018 USD '000	30 June 2017 USD '000
Salaries and benefits	5,385	5,727
Social insurance expenses	348	406
Other staff expenses	12	61
	5,745	6,194

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25 IMPAIRMENT PROVISIONS CHARGED

	Specific impairment provisions relating to						
30 June 2018	*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	(22,752)	(5,393)	(4,568)	(12,067)	(2,971)	(1,362)	**(49,113)**
Impairment provisions charged	(1,018)	(354)	-	-	(120)	-	**(1,492)**
Write-offs	3,067	5,173	275	11,997	398	-	**20,910**
	2,049	**4,819**	**275**	**11,997**	**278**	**-**	**19,418**
Provision at the end of the year	**(20,703)**	**(574)**	**(4,293)**	**(70)**	**(2,693)**	**(1,362)**	**(29,695)**

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

25 IMPAIRMENT PROVISIONS CHARGED (continued)

30 June 2017	*Specific impairment provisions relating to* 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)	(2,505)	(1,362)	(45,314)
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)	(2,971)	(1,362)	(49,113)

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

Notes to the Consolidated Financial Statements
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26 OTHER EXPENSES

	30 June 2018 USD '000	30 June 2017 USD '000
Rent and office expenses	**1,626**	1,763
Publicity, conferences and promotion	**96**	125
Board of directors and Shari'a supervisory board fees and expenses	**461**	539
Exchange loss	**(52)**	283
Regulatory penalties	**-**	97
Project management costs	**853**	1,157
Other	**42**	14
	3,026	3,978

27 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.

27 RELATED PARTY TRANSACTIONS (continued)

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

30 June 2018	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	-	-	210	**210**
Investments	19,838	-	6,634	**26,472**
Investments in associates and joint venture accounted under the equity method	26,666	-	-	**26,666**
Murabaha financing to investee companies	37,199	-	-	**37,199**
Other assets	5,414	-	800	**6,214**
Liabilities				
Employee accruals	-	1,503	-	**1,503**
Other liabilities	-	-	423	**423**
Income				
Share of loss of associates and joint venture accounted for using the equity method	(132)	-	-	**(132)**
Other income	-	-	754	**754**
Expenses (excluding compensation for key management personnel)				
Impairment allowances against receivables	354	-	-	**354**
Commitments and contingencies	26,368	-	-	**26,368**

27 RELATED PARTY TRANSACTIONS (continued)

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
Placements with financial institutions	-	-		-
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
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)
Other income	-	-	718	718
Expenses (excluding compensation for key management personnel)				
Impairment allowances against receivables	717	-	-	717
Commitments and contingencies	18,726	-	-	18,726

27 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 2018		*30 June 2017*	
	Number of Shares	***Number of Directors***	*Number of Shares*	*Number of Directors*
Less than 1%	**5,952,312**	**7**	5,952,312	7
1% up to less than 5%	**16,654,724**	**4**	16,654,724	4
5% and less than 10%	**25,179,616**	**2**	25,179,616	2
	47,786,652	**13***	47,786,652	13*

* One director representing a corporate shareholder also holds a personal ownership of 1.19%, hence total directors for the year ended 2018 are 12 directors (2017: 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 2018 USD '000	*30 June 2017 USD '000*
Board of directors' attendance fees	**277**	342
Salaries and other short-term benefits	**1,715**	1,699
	1,992	2,041

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 2018 and 2017.

28 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 2018 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 2018 is US cents nil for every share held (2017: US cents nil 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.

29 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 (2017: nil).

30 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.

31 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 35 (c).

30 June 2018	***Up to 3 months USD '000***	***3 to 6 months USD '000***	***6 months to 1 year USD '000***	***Total 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	7,326	-	-	7,326	-	-	-	**7,326**
Investments	12,770	1,190	-	13,960	-	-	137,556	**151,516**
Investments in associates and joint venture accounted under the equity method	-	-	-	-	-	-	26,666	**26,666**
Murabaha financing to investee companies	400	1,798	400	2,598	35,999	-	-	**38,597**
Receivables	27,719	2,753	-	30,472	2,948	-	-	**33,420**
Funding to project companies	-	3,025	-	3,025	-	-	-	**3,025**
Other assets	1,807	2,660	409	4,876	11	15	18,893	**23,795**
Property and equipment	-	-	-	-	-	-	7,816	**7,816**
Total assets	**50,022**	**11,426**	**809**	**62,257**	**38,958**	**15**	**190,931**	**292,161**
Liabilities								
Islamic financing payables	38,468	-	-	38,468	70,687	-	-	**109,155**
Employee accruals	-	-	-	-	438	-	1,654	**2,092**
Other liabilities	11,855	776	141	12,772	3	2,648	33	**15,456**
Total liabilities	**50,323**	**776**	**141**	**51,240**	**71,128**	**2,648**	**1,687**	**126,703**
Net liquidity gap	**(301)**	**10,650**	**668**	**11,017**	**(32,170)**	**(2,633)**	**189,244**	**165,458**
Cumulative liquidity gap	**(301)**	**10,349**	**11,017**	**11,017**	**(21,153)**	**(23,786)**	**165,458**	**165,458**
Commitments and contingencies	**-**	**186**	**302**	**488**	**29,005**	**-**	**10,000**	**39,493**

31 MATURITY PROFILE (continued)

30 June 2017	Up to 3 months USD '000	3 to 6 months USD '000	6 months to 1 year USD '000	Total 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

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

a) Industry sector

30 June 2018	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	-	7,326	-	-	-	-	-	-	**7,326**
Investments	10,553	10,001	50,252	4,845	8,652	962	4,929	61,322	**151,516**
Investment in associates and joint venture accounted under the equity method	-	-	24,932	-	-	-	-	1,734	**26,666**
Murabaha financing to investee companies	-	-	1,398	-	-	-	37,199	-	**38,597**
Receivables	-	-	3,754	-	14,740	-	-	14,926	**33,420**
Funding to project companies	-	625	2,400	-	-	-	-	-	**3,025**
Other assets	5,414	25	2,981	-	4	-	-	15,371	**23,795**
Property and equipment	-	-	7,363	-	-	-	-	453	**7,816**
Total assets	**15,967**	**17,977**	**93,080**	**4,845**	**23,396**	**962**	**42,128**	**93,806**	**292,161**
Liabilities									
Islamic financing payable	-	37,676	-	-	-	-	-	71,479	**109,155**
Employee accruals	-	-	-	-	-	-	-	2,092	**2,092**
Other liabilities	-	-	-	-	-	-	-	15,456	**15,456**
Total liabilities	**-**	**37,676**	**-**	**-**	**-**	**-**	**-**	**89,027**	**126,703**
Commitments and contingencies (note 34)	**25,138**	**10,000**	**371**	**-**	**975**	**-**	**-**	**3,009**	**39,493**
Equity of investment account holders	**-**	**1,563**	**-**	**-**	**-**	**-**	**-**	**543**	**2,106**

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

a) Industry sector (continued)

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 34)	17,363	10,000	1,304	-	1,044	-	-	-	29,711
Equity of investment account holders	-	2,298	-	-	-	-	-	446	2,744

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32 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 2018	***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	7,326	-	-	-	-	**7,326**
Investments	74,314	62,450	7,034	2,789	4,929	**151,516**
Investment in associates and joint venture accounted under the equity method	25,505	1,161	-	-	-	**26,666**
Murabaha financing to investee companies	-	-	1,398	-	37,199	**38,597**
Receivables	29,501	2,705	-	1,214	-	**33,420**
Funding to project companies	3,025	-	-	-	-	**3,025**
Other assets	11,351	8,188	3,455	801	-	**23,795**
Property and equipment	7,816	-	-	-	-	**7,816**
Total assets	**158,838**	**74,504**	**11,887**	**4,804**	**42,128**	**292,161**
Liabilities						
Islamic financing payable	109,155	-	-	-	-	**109,155**
Employee accruals	2,092	-	-	-	-	**2,092**
Other liabilities	15,456	-	-	-	-	**15,456**
Total liabilities	**126,703**	-	-	-	-	**126,703**
Commitments and contingencies	**14,356**	**25,137**	-	-	-	**39,493**
Equity of investment account holders	**2,106**	-	-	-	-	**2,106**

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

(b) Geographic region (continued)

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

33 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.

34 COMMITMENTS AND CONTINGENCIES

The Group has issued financial guarantees totaling USD 29.01 million (30 June 2017: USD 15.86 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 2017: USD nil) and commitments to invest of USD 10.49 million (30 June 2017: USD 13.85 million).

35 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, murabaha financing to investee companies, receivables, 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 2018. The Group holds collateral comprising the pledge of four ships against its funding exposure to an investee in the shipping sector totalling approximately USD 35 million as at 30 June 2018 (30 June 2017: USD 35 million). In the opinion of management, the value of the collateral based on recent ships valuations data, is considered to sufficiently cover the total exposure.

35 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 31.

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 2018 USD '000	*30 June 2017 USD '000*
Receivables	**7,530**	7,684
Funding to project companies	**694**	12,067
Other assets	**2,844**	3,255
Total	**11,068**	23,006

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 32.

At 30 June 2018, the total credit exposure to individual counterparties which comprised 10% or more of the Group's equity was USD 119.5 million relating to four counterparties (30 June 2017: USD 132.2 million relating to four counterparties).

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

35 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 31 for the expected maturity profile of assets and liabilities.

	Gross undiscounted cash flows					
30 June 2018	***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	38,553	-	-	77,333	-	**115,886**
Employee accruals	1,654	-	-	438	-	**2,092**
Other liabilities	11,888	776	141	3	2,648	**15,456**
Total financial liabilities	**52,095**	**776**	**141**	**77,774**	**2,648**	**133,434**
Commitments and contingencies	**10,000**	**186**	**302**	**29,005**	**-**	**39,493**
Equity of investment account holders	**66**	-	-	**2,040**	-	**2,106**

	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

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.

35 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 2018	30 June 2017
Placements with financial institutions	**2.00%**	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 2018 USD '000	30 June 2017 USD '000
100 bps parallel increase / (decrease)		
Placements with financial institutions	**± 20**	± 1
Funding to project companies	**± 30**	± 0
Islamic financing payables	**± 1,092**	± 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 listed investments denominated in Kuwaiti Dinars and Great Britain Pounds. The Group seeks to manage currency risk by continually monitoring exchange rates and exposures.

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

	30 June 2018 USD '000	30 June 2017 USD '000
Kuwaiti Dinars	**3,817**	4,444
Great Britain Pounds	**1,494**	2,703

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35 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 2018 and 30 June 2017 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 2018		30 June 2017	
	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%	**382**	-	444	-
Great Britain Pounds	+10%	**149**	-	270	-
Kuwaiti Dinars	-10%	**(382)**	-	(444)	-
Great Britain Pounds	-10%	**(149)**	-	(270)	-

(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 2018		30 June 2017	
		Effect on profit USD '000	**Effect on equity USD '000**	Effect on profit USD '000	Effect on equity USD '000
Trading securities	+1%	**40**	**-**	46	-
Available-for-sale	+1%	**-**	**-**	-	13
Trading securities	-1%	**(40)**	**-**	(46)	-
Available-for-sale	-1%	**-**	**-**	-	(13)

35 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 2018 USD '000	*30 June 2017 USD '000*
Total risk weighted assets	**861,098**	1,121,121
CET1 capital	**165,457**	170,645
Additional Tier 1	**-**	-
Tier 2 capital	**1,362**	1,362
Total regulatory capital	**166,819**	172,007
Total regulatory capital expressed as a percentage of total risk weighted assets	**19.37%**	15.34%
Minimum requirement	**12.5%**	12.5%

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

Tier 2 capital comprises unrealised gains arising from fair valuing equity securities supported by independant valuations. 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.

36 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 2018	***Level 1 USD 000***	***Level 2 USD 000***	***Level 3 USD 000***	***Total USD 000***
Held for trading	**3,951**	**-**	**-**	**3,951**
Fair value through profit or loss	**-**	**-**	**95,746**	**95,746**
Available-for-sale	**-**	**-**	**-**	**-**
	3,951	**-**	**95,746**	**99,697**

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

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 2018 USD 000	*30 June 2017 USD 000*
At 1 July	**101,032**	117,982
Fair value losses recognised in the consolidated statement of income - net	**(3,202)**	(37,810)
(Sale of) / additional investments during the year - net	**(2,084)**	20,860
At 30 June	**95,746**	101,032

36 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 capitalization of cash flows of the last year of the estimate. The discount rates used for computing the present value of future cash flows range from 7.3% to 16.3%. 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 1,619 thousand, whereas a 1% decrease in the discount rate would increase the fair values by approximately USD 1,723 thousand. The potential income effect of 0.5 times change, on either side, in the market multiples, which is a key variable used in the valuation technique, would increase the fair values by approximately USD 3,139 thousand or reduce the fair values by approximately USD 3,139 thousand respectively.

Investments amounting to USD 51,819 thousand (30 June 2017: USD 54,435 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

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 consolidated financial statements for the year ended 30 June 2018.

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 2018, the Bank's total risk weighted assets amounted to USD 861 million; Common Equity, Tier 1 Capital and total regulatory capital amounted to USD 165.5 million, USD 165.5 million and USD 166.8 million respectively. Accordingly, Common Equity Ratio, Tier 1 Capital Adequacy Ratio and total Capital Adequacy Ratio was 19.21%, 19.21% and 19.37% respectively, which exceeds the minimum capital requirement of the CBB of 12.5%.

2 Capital Structure

2.1 Capital Base
The authorized share capital of the Bank is USD 500 million, comprising 500 million common shares of USD 1 each. The Bank's current paid up capital is USD 190 million held by 174 shareholders from countries in the Gulf Cooperation Council ("GCC").

2.2 Group structure:
The Bank consolidates its fully owned subsidiaries, and as of 30 June 2018, the following operational subsidiaries (together "the Group") are as following:

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%
GMCB Co. W.L.L*	Kingdom of Bahrain	BHD 20,000	50.59%

*During 2017, the Group increased its stake in the above investee through conversion of receivables resulting in it becoming a subsidiary. The Group's investment in GMCB Co. W.L.L. is designated as investment at fair value through profit or loss as allowed by IFRS 10.

2 Capital Structure (continued)

2.3 Review of financial performance:
The Group's performance in the past two years has been negatively impacted by significant impairment provisions and fair value losses totalling USD 6.5 million in 2018 and USD 38.3 million in 2017 that were recorded based on investment valuations and impairment assessments. In line with the Bank's consistent policy, these assessments take into consideration all relevant factors including the geopolitical and social circumstances in the region and the challenging investment climate in Turkey plus the ongoing GCC blockade on Qatar. Notwithstanding, the Board and management have put in place a clear plan to tackle the challenges with a concerted effort to revive and achieve exits of its legacy assets combined with value addition from new deals and costs reductions to enable the Bank to return to profitability.

Particulars	*June 2018*	*December 2017*	*June 2017*	*June 2016*	*June 2015*	*June 2014*	*June 2013 (18 months)*	*December 2012*
Net profit (USD million)	(5.25)	(5.69)	(53.65)	9.28	14.06	14.59	21.15	18.51
ROC (return on paid up capital)	-2.8%	-3.0%	-28.2%	4.9%	7.8%	8.1%	5.5%	7.2%
Head count	45	52	51	50	49	45	45	42
Total investments / total assets	61%	67%	67%	65%	76%	70%	75%	76%
Leverage (total liabilities / total equity)	76.6%	68.4%	65.8%	49.0%	14.4%	15%	11%	6%
Retained earnings / paid up capital	-16%	-16%	-13%	15%	19%	17%	-22%	-23%

During the current year, income from investment exits was the main contributor to net income. The Bank's investment team are working on achieving further exits to realize further exit income, and also on new deals to grow fiduciary assets under management and thereby increase the proportion of recurring income from management fees.

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-up capital, audited retained earnings and/or accumulated losses 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 collective impairment 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 the Kingdom of 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 Information Returns on the Bank's capital adequacy are filed quarterly with the CBB and are reviewed by the external auditors.

2.11 During the year ended 30 June 2018, the Bank continued the development and enhancement of its risk management and internal capital adequacy assessment framework.

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

2 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 2018

CAPITAL COMPONENTS - CONSOLIDATED	CET 1	AT1	T2
	USD '000	USD '000	USD '000
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)		
Current interim cumulative net income / losses	(5,247)		
All other reserves	(71)		
Total CET1 capital before minority interest	**165,457**		
Total Common Equity Tier 1 capital	**165,457**		
Other Capital (AT1 & T 2)			
General financing loss provisions		-	1,362
Total Available AT1 & T2 Capital		**-**	**1,362**
Net Available Capital	**165,457**	**-**	**1,362**
Total Tier 1		**165,457**	
Total Available Capital			**166,819**

Reconciliation with reviewed interim condensed consolidated financial statements:	
Shareholder's equity per reviewed interim condensed consolidated financial satements	**165,457**
Add: Collective impairment provisions	1,362
Total available capital for regulatory purposes	**166,819**

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	5,660	2,074	249
Other Corporates Including Category 3 Investment Firms - (net of CRM)	81,717	57,742	6,929
Equity Investments			
Investments in listed equities in banking book	3,951	3,951	474
Investments in unlisted equities in banking book	73,468	110,202	13,224
Significant investment in the common shares of financial entities >10%	8,214	20,534	2,464
Significant investment in the common shares of Commercial Entities above 15%, 60%	16,362	130,897	15,708
Other exposures with excess of large exposure limits (Module CM)	26,248	209,982	25,198
Premises occupied by the bank	7,671	7,671	921
Holding of Real Estate - Others	56,013	112,025	13,443
Investment in unlisted real estate companies	27,006	108,024	12,963
Other exposures	55,170	55,170	6,620
Total credit risk exposure under standardized approach	**361,479**	**818,272**	**98,193**
Market risk:			
Trading equities position	3,951	7,901	948
Foreign exchange position	16,238	16,238	1,949
Total market risk under standardized approach	**20,189**	**24,140**	**2,897**
Operational risk under Basic Indicator Approach (ref. below)		**18,686**	**2,242**
Total		**861,098**	**103,332**
Total eligible capital - (Tier 1 + Tier 2)		**166,819**	
Total eligible capital - Tier 1		**166,457**	
Common Equity Tier 1		**166,457**	
Total Capital Adequacy Ratio (Tier 1 + Tier 2)		**19.37%**	
Tier 1 Capital Adequacy Ratio		**19.21%**	
Common Equity Tier 1 Ratio		**19.21%**	

Capital requirement for Operational Risk
(Basic Indicator Approach)

	2018	*2017*	*2016*	*2015*
	USD '000	*USD '000*	*USD '000*	*USD '000*
Gross income for prior three years	4,895	(31,625)	15,037	15,395
Average of past 3 years gross income (excl. loss years)	9,966	15,216		
Capital requirement for Operational Risk (15%)	1,495	2,282		
Risk weighted exposure for Operational Risk	**18,686**	**28,630**		

Total losses on investments:	***30 June 2018***	*30 June 2017*
	USD '000	*USD '000*
Unrealised fair value losses recognized in the statement of income	**(3,833)**	(38,266)

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30 June 2018

2 Capital Structure (continued)

2.13 Capital Adequacy (continued)

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

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

Particulars	*30-Jun-18*	*30-Jun-17*	*30-Jun-16*	*30-Jun-15*	*31-Mar-15*	*31-Dec-14*	*30-Sep-14*	*30-Jun-14*	*31-Mar-14*	*Maximum*	*Minimum*
Market risk exposures											
Listed equities held for trading	3,951	4,582	5,038	2,816	3,008	1,104	907	897	880	5,038	880
Foreign currency exposure	16,238	16,025	24,077	73,851	77,233	72,894	79,897	76,013	65,256	79,897	16,025
Market risk charge											
Listed equities held for trading	632	733	806	451	481	177	145	143	141	806	141
Foreign currency exposure	1,299	1,282	1,926	5,908	6,179	5,832	6,392	6,081	5,220	6,392	1,282
Total market risk charge	1,931	2,015	2,732	6,359	6,660	6,008	6,537	6,225	5,361	7,198	1,423
Market risk weighted exposure											
Listed equities held for trading	7,901	9,164	10,076	5,633	6,017	2,207	1,813	1,793	1,761	10,076	1,761
Foreign currency exposure	16,238	16,025	24,077	73,851	77,233	72,894	79,897	76,013	65,256	79,897	16,025
Total market risk weighted exposure	**24,139**	**25,189**	**34,153**	**79,484**	**83,250**	**75,101**	**81,710**	**77,806**	**67,017**	**83,250**	**24,139**

Table 4 – Details of credit risk weight on Islamic financing contracts at 30 June 2018, which is representative of the average exposure during the year:

Asset Categories for Credit Risk	***Credit Exposure***	***Credit Risk Weighted Assets***
	USD '000	***USD '000***
Commodity murabaha to projects	38,597	38,597
Profit free funding to projects	3,025	3,025
Total Islamic Financing Contracts	**41,622**	**41,622**

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 2018, the total collective impairment provision stood at USD 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 2018 bank balances totalling USD 3.3 thousand were rated as "ECAI 4 (BB+ to B-)" 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.

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 USD 29.01 million (30 June 2017: USD 15.86 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 USD 10.49 million (30 June 2017: USD 13.85 million; and

c. Restricted investment accounts of USD 2.11 million (30 June 2017: USD 2.74 million) (refer to statement of changes in off-balance equity of investment account holders to the consolidated 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.

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30 June 2018

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 2018*

Distribution of Bank's exposures by geographic sector

Geographic sector	*GCC countries*	*Other MENA countries*	*Europe*	*Cayman / Americas*	*Global*	*Total*
	USD '000	*USD '000*	*USD '000*	*USD '000*	*USD '000*	*USD '000*
Assets						
Balances and placements with banks	7,326	-	-	-	-	7,326
Investments	74,314	62,450	7,034	2,789	4,929	151,516
Investment in associates and joint venture accounted under the equity method	25,505	1,161	-	-	-	26,666
Murabaha financing to investee companies	-	-	1,398	-	37,199	38,597
Receivables	29,501	2,705	-	1,214	-	33,420
Funding to project companies	3,025	-	-	-	-	3,025
Other assets	11,351	8,188	3,455	801	-	23,795
Property and equipment	7,816	-	-	-	-	7,816
Total assets	**158,838**	**74,504**	**11,887**	**4,804**	**42,128**	**292,161**
Off statement of financial position items						
Equity of investment account holders	2,106	-	-	-	-	2,106
Commitments and contingencies	14,356	25,137	-	-	-	39,493
	175,300	**99,641**	**11,887**	**4,804**	**42,128**	**333,760**

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

3 Risk Management (continued)

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

b. *Table 6: Distribution of the Bank's exposures by Industry Sector as at 30 June 2018*

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

Industry sector	*Trading & manuracturing*	*Banks & financial Institution*	*Real estate related*	*Oil and Gas*	*Health Care*	*Technology*	*Shipping*	*Others*	*Total*
Assets									
Balances and placements with banks	-	7,326	-	-	-	-	-	-	7,326
Investments	10,553	10,001	50,252	4,845	8,652	962	4,929	61,322	151,516
Investment in associates and joint ventures accounted under the equity method	-	-	24,932	-	-	-	-	1,734	26,666
Murabaha financing to an investee companies	-	-	1,398	-	-	-	37,199	-	38,597
Receivables	-	-	3,754	-	14,740	-	-	14,926	33,420
Funding to project companies	-	625	2,400	-	-	-	-	-	3,025
Other assets	5,414	25	2,981	-	4	-	-	15,371	23,795
Property and equipment	-	-	7,363	-	-	-	-	453	7,816
Total Assets	**15,967**	**17,977**	**93,080**	**4,845**	**23,396**	**962**	**42,128**	**93,806**	**292,161**
Off statement of financial position items									
Equity of investment account holders	-	1,563	-	-	-	-	-	543	2,106
Commitments and contingencies	25,138	10,000	371	-	975	-	-	3,009	39,493
	41,105	**29,540**	**93,451**	**4,845**	**24,371**	**962**	**42,128**	**97,358**	**333,760**

c. *Table 7: Exposures by maturity as at 30 June 2018*

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	7,326	-	-	7,326	-	-	-	7,326
Investments	12,770	1,190	-	13,960	-	-	137,556	151,516
Investment in associates and joint ventures accounted under the equity method	-	-	-	-	-	-	26,666	26,666
Murabaha financing to an investee companies	400	1,798	400	2,598	35,999	-	-	38,597
Receivables	27,719	2,753	-	30,472	2,948	-	-	33,420
Funding to project companies	-	3,025	-	3,025	-	-	-	3,025
Other assets	1,807	2,660	409	4,876	11	15	18,893	23,795
Property and equipment	-	-	-	-	-	-	7,816	7,816
Total assets	**50,022**	**11,426**	**809**	**62,257**	**38,958**	**15**	**190,931**	**292,161**
Off statement of financial position items								
Equity of investment account holders	64	-	-	64	2,040	-	2	2,106
Commitments and contingencies	-	186	302	488	29,005	-	10,000	39,493
	50,086	**11,612**	**1,111**	**62,809**	**70,003**	**15**	**200,933**	**333,760**

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

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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 2018

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	-	-	210	**210**
Investments	19,838	-	6,634	**26,472**
Investments in associates and joint venture	26,666	-	-	**26,666**
Murabaha financing to investee companies	37,199	-	-	**37,199**
Other assets	5,414	-	800	**6,214**
Liabilities				
Employee accruals	-	1,503	-	**1,503**
Other liabilities	-	-	423	**423**
Income				
Share of loss of associates and joint venture accounted for using the equity method	(132)	-	-	**(132)**
Expenses (excluding compensation for key management personnel)				
Other income	-	-	754	**754**
Impairment allowances against receivables	354	-	-	**354**
Commitments and contingencies	26,368	-	-	**26,368**

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 Standardized Approach.

Operational Risk Management

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

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

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

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

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

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

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

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

3 Risk Management (continued)

Legal Risks

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

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

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 Accounting and Auditing Organisation for Islamic Financial Institutions (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.

3 Risk Management (continued)

Unrealized fair value adjustments

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

Particulars	*12 months ended June 2018*	*12 months ended June 2017*	*12 months ended June 2016*	*12 months ended June 2015*	*12 months ended June 2014*	*18 months ended June 2013*	*12 months ended December 2012*
	USD '000	*USD '000*	*USD '000*	*USD '000*	*USD '000*	*USD '000*	*USD '000*
Private Equity investments - fair value (losses) / gains	(3,202)	(37,810)	(17,049)	2,000	(2,250)	(7,300)	(2,000)
Listed equity investments - fair value (losses) / gains	(631)	(456)	(459)	(327)	17	(15)	(20)
Total unrealized fair value (loss) / gain	**(3,833)**	**(38,266)**	**(17,508)**	**1,673**	**(2,233)**	**(7,315)**	**(2,020)**

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 USD 38.47 million and a medium term loan of USD 70.69 million as at 30 June 2018. 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 and 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.

3 Risk Management (continued)

3.32 The Bank's liquidity ratio (cash and cash equivalents plus marketable securities to total liabilities) stood at 20% as at 30 June 2018:

Table 10: Liquidity Ratio as at 30 June 2018

	USD '000
Cash at bank	5,285
Placements at bank	2,041
Marketable trading securities	3,951
Short term liquidity certificates	13,960
Total liquid assets	**25,237**
Total liabilities	**126,703**
Of which, due in up to 1 year *	51,240
Non current, due after 1 year or more	75,463
Liquid assets / total liabilities	**20%**
Liquid assets / current liabilities (due within 1 year)	**49%**

* Amounts totalling USD 38,468 thousand of this comprise interbank lines which are expected to be rolled over

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	*USD '000*	*USD '000*	*USD '000*	*USD '000*
> 1 day to 3 months	14,811	38,468	(23,657)	(23,657)	(473)
> 3 months to 6 months	1,190	-	1,190	(22,467)	24
> 6 months to 12 months	-	-	-	(22,467)	-
> 1 year to 5 years	34,750	70,687	(35,937)	(58,404)	(719)
Total	50,751	109,155			
% of total balance sheet	17%	37%			

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 USD 473 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 USD 24 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 USD 719 thousand if the profit margin rate increases by 200 basis points.

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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 USD 2.1 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

	12 months ended June 2018	*12 months ended June 2017*	*12 months ended June 2016*	*12 months ended June 2015*	*12 months ended June 2014*	*18 months ended June 2013*
	USD '000	*USD '000*	*USD '000*	*USD '000*	*USD '000*	*USD '000*
GCC Pre IPO Fund						
Net profit/(loss)	(438)	(808)	4	(152)	-	34
Total assets	2,106	2,744	3,756	3,833	3,879	3,740
Total equity	2,106	2,744	3,756	3,833	3,879	3,740
Return on assets (ROA)	-21%	-29%	0%	-4%	0%	1%
Return on equity (ROE)	-21%	-29%	0%	-4%	0%	1%

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 consolidated financial statements).

4 Impairment Provisions:

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

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

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

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

Table 13: Impairment provisions - by asset class

		Impairment booked during the period ended 30 June 2018		*Cumulative impairment provision as of 30 June 2018*		
Particulars	***Gross exposure***	***Specific***	***Collective***	***Specific***	***Collective***	***Net carrying value***
	USD '000	***USD '000***	***USD '000***	***USD '000***	***USD '000***	***USD '000***
Investments	38,072	1,019	-	20,703	-	17,369
Investments in associates and joint venture	1,146	354	-	574	-	572
Receivable from investment banking services	7,530	-	-	4,293	-	3,237
Funding to project companies	693	-	-	70	-	623
Other assets	2,845	120	-	2,693	-	152
Collective impairment provision	-	-	-	-	1,362	-
Total	**50,286**	**1,492**	**-**	**28,333**	**1,362**	**21,953**

Table 14: Impairment provisions - by industrial sector

		Impairment booked during the period ended 30 June 2017		*Cumulative impairment provision as of 30 June 2017*		
Particulars	***Gross exposure***	***Specific***	***Collective***	***Specific***	***Collective***	***Net carrying value***
	USD '000	***USD '000***	***USD '000***	***USD '000***	***USD '000***	***USD '000***
Real estate	35,206	1,019	-	22,217	-	12,989
Health care	290	-	-	-	-	290
Technology	295	-	-	295	-	-
Oil and gas	18	-	-	18	-	-
Transportation	7,126	-	-	3,325	-	3,801
Others	7,351	474	-	2,478	-	4,873
Collective impairment provision	-	-	-	-	1,362	-
Total	**50,286**	**1,492**	**-**	**28,333**	**1,362**	**21,953**

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 2018. 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	57.71%
Qatar	4.78%
Oman	2.57%
Kingdom of Bahrain	7.99%
Total	**100.00%**

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 whom are independent non-executive Directors.

Additional Public Disclosures
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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