VENTURE CAPITAL BANK

PAINTING FUTURE
VENTURES

ANNUAL REPORT
2018-2019

VENTURE CAPITAL BANK BSC(c)

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

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

www.vc-bank.com

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

بسم الله الرحمن الرحيم

CONTENTS

CORPORATE OVERVIEW

BUSINESS REVIEW

FINANCIAL STATEMENTS

CORPORATE OVERVIEW

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 revenue-generating real estate investments, greenfield business opportunities, and very selective private equity transactions.

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

"The Board and Management consider that conversion from a wholesale banking to an investment business licence could be more appropriate for VCBank's business model. Accordingly, we will make appropriate recommendations concerning the Bank's future direction to shareholders for their consideration and approval."

ABDULFATAH MOHAMMED RAFIE MARAFIE
Chairman
State of Kuwait

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

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of Venture Capital Bank (VCBank) for the fiscal year ended 30 June 2019. As anticipated, this proved to be another highly challenging period for the regional investment banking industry.

The year witnessed elevated economic and market uncertainty; further oil price volatility; and heightened geopolitical tensions, especially at a regional level. There was also growing concern over the escalating global trade war, and the lack of a Brexit deal. These constitute some of the main factors that continued to impact negatively on investor sentiment.

In light of this challenging environment, the Board and Executive Management held its annual strategic workshop to review and realign the Bank's investment strategy. Portfolio companies were subjected to investment stress testing and analysis to ensure the most realistic valuations in current market conditions; while further steps were taken to speed up the exit from several legacy projects that have been affected by financial, economic, market or geopolitical issues, and which involve considerable administrative time and effort by Management, and the Investment and Post-Acquisition teams. Despite the muted investment environment during the year, it is encouraging to note that VCBank successfully completed its fourth acquisition and first exit in the resilient US multifamily property sector.

In the best interests of shareholders and investors, the Board and the management decided to cancel the Mado acquisition in Turkey, due to the continuing political uncertainty and currency volatility that were adversely affecting the operations and investment prospects of the company. Accordingly, the Bank has reversed the USD 16.4 million gain previously recognised related to the acquisition. Further, in light of continuing challenges with respect to current market conditions, and to pave the way for the Bank to return to growth with less issues relating to the legacy investment portfolio, the Board decided to minimise the potential of future impairments and fair value losses in order to protect the balance sheet and provide a faithful presentation of the Bank's financial position going forward. Accordingly, we booked impairment provisions and fair value losses totalling USD 35.07 million during the year, which resulted in the Bank reporting a loss of USD 58.18 million for fiscal year 2019.

The Board fully recognises the need to continue improving our cost management, and analysing the effects of a stricter regulatory regime under Basel IV. These are critical success factors in meeting our objective to return the Bank to profitability and enhance returns to shareholders, while protecting the interests of all stakeholders.

With the regional investment banking industry undergoing another paradigm shift – probably the most significant since the financial crisis a decade ago – the Board and Management studied how other Bahrain-domiciled investment banks are transforming their operating models and changing their regulatory licensing status, to determine if such measures are relevant for VCBank.

In this respect, it should be noted that VCBank is primarily an alternative asset manager focused on revenue-generating real estate investments, greenfield business opportunities, and very selective private equity transactions. We do not take deposits or make loans, nor do we engage in capital market-related activities. Consequently, the Board and Management consider that conversion from a wholesale banking to an investment business license could be more appropriate for VCBank's business model; especially given the growing administrative burden and associated costs of a more stringent regulatory regime covering areas such as liquidity, risk management and capital adequacy.

Following favourable initial discussions with the CBB, we appointed a specialist advisory firm to conduct an impact assessment analysis. Based on their report, the Board will make appropriate recommendations concerning the future direction of the Bank to shareholders for their consideration and approval.

During the year, there were some changes to the composition of the Board of Directors. I would like to welcome Mr. Adel Mohammed Abu Nayyan, who was elected as an independent and non-executive Director in October 2018. His extensive experience in business and investments will greatly benefit the Board. In turn, I would to thank the three outgoing Directors – Mr. Yasir Mohammed Al Jarullah, Mr. Mohammed Saleh Al Athel and Mr. Sulaiman Abdulrahman Al Rashid – for their respective contributions over the past years which are highly appreciated, and wish them well in their future endeavours.

Looking ahead, next year looks set to be another highly-testing and unpredictable period, with a continuation of the same issues that characterised fiscal 2019. However, our decision to book very conservative provisions and post a loss for this year, will enable the Bank to start fiscal 2020 in a much stronger position, supported by a cleaner balance sheet, healthier portfolio, adequate liquidity, and a promising pipeline of potential new investments and targeted exits. Nevertheless, as the Bank continues to find exits for its legacy portfolio in order to generate funds for new investments, there is the potential for further losses to be realised, as well as possible recoveries, as market conditions evolve.

With full confidence in the ability of Management to maintain our realigned strategic focus and continue to enhance organisational effectiveness and efficiency, the Board remains cautiously optimistic about the Bank's prospects in FY 2020, 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 MOHAMMED RAFIE MARAFIE
Chairman of the Board

BOARD OF DIRECTORS

ABDULFATAH MOHAMMED RAFIE MARAFIE
Chairman
State of Kuwait

MOHAMMED ABDULAZIZ ALSARHAN
Deputy Chairman
Kingdom of Saudi Arabia

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

MARWAN AHMAD AL GHURAIR
Board Member
United Arab Emirates

SALEH MOHAMMED AL SHANFARI
Board Member
Sultanate of Oman

ADWAN MOHAMMAD ALADWANI
Board Member
State of Kuwait

MOHAMMED ABDULRAZZAQ ALKANDARI
Board Member
State of Kuwait

DR. MOHAMMED AHMED JUMAAN
Board Member
Kingdom of Bahrain

ADEL MOHAMMED ABU NAYYAN
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 line with VCBank's refocused investment strategy, we capitalised on the considerable knowledge and expertise we have developed in the US multifamily sector since 2015, by completing our fourth property acquisition and finalising our first exit from this sector."

ABDULLATIF MOHAMED JANAHI

Board Member & Chief Executive Officer
Kingdom of Bahrain

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

Judging by the events of the past twelve months, it is evident that we are now operating in a significantly more challenging environment. Key issues and concerns include increasing economic volatility, shifting market dynamics, disruptive technologies, and greater regulatory control.

In light of this evolving scenario, the Board of Directors and the Management Team exhaustively reviewed the Bank's strategy and business model, and identified key areas that needed addressing. These entail refocusing our investment activities, optimising the balance sheet, and reducing the cost base; and restructuring the organisation to improve efficiency and maximise synergies.

In line with this strategic realignment, we took a number of remedial steps. These included reviewing our investment portfolio by asset class, sector and geography, and associated risks; and revaluing certain assets in line with current market conditions. We also fine-tuned our investment strategy with a greater focus on income-generating real estate assets in the USA and Europe; while private equity transactions will be put on hold for the foreseeable future.

At an operational level, we took the difficult decision to reduce the headcount by a third, as well as a substantial salary cut for all management level positions and above; carrying out this exercise in a most considerate and caring manner. We also took concerted steps to eliminate all unnecessary operating costs.

The actions that we have taken in fiscal 2019 will result in VCBank becoming a leaner, more efficient and focused institution, backed by stronger underlying financial fundamentals. This will enable us to continue to protect the interests of all stakeholders, and focus on advancing our realigned strategic objectives and business goals. The decision to book very conservative provisions, and post a loss for this year, will enable VCBank to start fiscal 2020 in a stronger position to support our objective of returning to profitability.

In line with our refocused investment strategy, we capitalised on the considerable knowledge and expertise we have developed in the US multifamily sector since 2015, by completing our fourth property acquisition. In collaboration with our long-standing US partner, who has extensive experience in the management and operation of multi-family residential assets, we purchased Glenbridge Manors in Cincinnati, Ohio. Home to eight Fortune 500 companies, this city has the fastest-growing economy in the state, with a high rate of employment growth in diverse sectors such as healthcare, education, government, financial services, manufacturing, retail and transportation.

Glenbridge Manors is a 'garden and townhouse-style' community comprising 274 spacious apartments, set amid scenic landscaping and supported by extensive amenities. Situated in one of the most desirable residential areas in the Midwest region of the USA, the property is rated as a grade 'A-' high-quality asset with an 'A-' grade superior location. Glenbridge Manors is expected to provide investors with quarterly dividend equating to an annual cash-on-cash return of 8.5 per cent, similar to that achieved to date by the Bank's existing multifamily properties in Atlanta.

We also finalised our first exit from this sector, with the sale of our initial US multifamily residential assets at Bridgewater & Preston Creek in Atlanta, Georgia. Comprising a total of 866 units, these fully-leased properties underwent a major renovation programme following their acquisition in 2015. This exit generated a return on investment of 49 per cent for investors, reinforcing the strong fundamentals and resilience of this sector. The Bank is currently identifying further properties in major US metropolitan areas that display robust economic growth and attractive potential for investment.

In Turkey, the Bank's acquisition of MADO has been cancelled on the basis of legal issues relating to certain conditions precedent not being met by the seller. However, the continuing political uncertainty and currency volatility have significantly affected the prospects for the investment and we did not feel it was prudent to continue with the transaction. VCBank's investments in Turkey now comprise Goknur, Turkey Farmland and OBA Makarna, all of which are performing well.

Looking ahead, the next twelve months should see the Bank realising the benefits of the remedial measures taken over the past year. VCBank is now a leaner, more efficient and focused institution, backed by strengthened underlying financial fundamentals and a promising pipeline of new investment deals and exits. As such, we are well placed to take advantage of emerging business opportunities, which will support the sustained profitability and continued development of the Bank for the ongoing benefit of all our stakeholders.

We are in no doubt that fiscal 2020 looks set to be another testing and challenging period for the MENA region, with the issues and concerns that highlighted this year continuing unabated. Nevertheless, the IMF and World Bank have forecast continued modest GDP growth for the region in 2018 and 2019, and we therefore maintain our cautiously optimistic outlook for the future prospects of the Bank.

In conclusion, I express my sincere gratitude for the unwavering support and encour-agement that we continue to receive from our Chairman and 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 Investments & Post-Acquisition

Mahmood Mohammed Zainal
Director – Investments

Ahmed Hassan Alabbasi
Director – Investments

Asya Hasan
Head of Internal Audit

Mohamed Khalid Ateeq
Head of Compliance & MLRO

Huda Faisal Janahi
Head of Risk Management

Jehad Hasan Qamber
Head of Human Resources & Support

Sahar Jaafar Khunji
Head of Investor Relations

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

GLENBRIDGE MANORS, CINCINNATI, OHIO,USA

VCBank has acquired a 90 per cent stake in this 'garden and townhouse-style' gated community, which comprises 274 apartments set amid scenic landscaping and extensive amenities. Located in one of Cincinnati's most desirable residential areas, Glenbridge Manors is rated as a grade 'A-' high-quality asset with an 'A-' grade superior location. Cincinnati was chosen as the location for this latest multifamily sector investment by VCBank and its long-standing US partner due to its strong underlying economic and business fundamentals. Home to eight Fortune 500 companies, the city enjoys the fastest-growing economy in Ohio, with a high rate of employment growth in diverse sectors such as healthcare, education, government, financial services, manufacturing, retail and transportation. Glenbridge Manors is expected to provide investors with quarterly dividends equating to an annual cash-on-cash return of 8.5 per cent, similar to that achieved to date by the Bank's existing multifamily properties in Atlanta, Georgia.

INVESTMENT EXITS CONCLUDED

BRIDGEWATER & PRESTON CREEK, ATLANTA, GEORGIA, USA

VCBank executed its first exit from the US multifamily sector with the sale of the Bridgewater & Preston Creek properties in Atlanta, Georgia. Comprising a total of 866 units, these fully-leased properties underwent a major renovation programme following their acquisition in 2015. With a gross sale value of US 104 million, this exit generated a return on investment (ROI) of 49 per cent; and provided investors with an internal rate of return (IRR) of 13 per cent over the four-year holding period.

AL KHOBAR SPECIALIST HOSPITAL

VCBank has exited from its investment in this specialist hospital, which is being developed by Saudi-based Al Othman Holding Company at Al Khobar in the Kingdom of Saudi Arabia. Covering a total area of 40,000 square metres, the 250-bed hospital (extendable to 400 beds), 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.

Goknur


Bridgewater, Atlanta

MATURE INVESTMENTS EARMARKED FOR EXIT

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. To meet the ongoing challenges of economic turmoil and currency volatility, the Company has identified several mitigating strategies and updated its business plan. Goknur has successfully implemented strategic growth initiatives aimed at expanding its geographic footprint. These include registering an office in the tax-free zone of Lianyungang in Eastern China, and leasing a warehouse to assess the market before constructing its own logistics complex. A number of prospective buyers have registered their interest in purchasing the Company.

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 seven SOP reactors now operating at over 90 percent utilisation, and the DCP plant having commenced production. The Company is in discussions with several potential strategic investors with the objective of generating a partial or full exit.

INVESTMENT REVIEW (CONTINUED)

ITWORX

ITWorx is one of the largest software outsourcing firms in Egypt, with offices in Saudi Arabia, UAE, Qatar, Europe and the USA. To mitigate falling revenues in 2018 due to market challenges in Qatar and Saudi Arabia, the Company has refocused its business activities on North America and the UAE in order to capitalise on the strong demand for business process automation, digital engagement and intelligent customer service. This has resulted in ITWorx winning its first end-to-end digital experience deal with the Department of Transportation in Dubai. In terms of the planned exit process, discussions are in final stages with an interested party based in the UAE to purchase the Education division. The transaction is expected to be completed by year end.

ITWorx

QCON

Established in 1975, Qatar Engineering & Construction Company (QCon) is a leading maintenance and engineering, procurement and construction (EPC) contracting company. 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, Saudi Arabia and Qatar. Given the current political situation, VCBank is exploring ways to either restructure its holding or exit to other shareholders, to minimise any damage to the Company and maximise investor value.

GERMAN ORTHOPAEDIC HOSPITAL

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. A number of performance improvement initiatives have been introduced to further enhance the Hospital's profitability and liquidity.

VCBank is currently in discussions with several parties who have expressed interest in acquiring the Hospital.

GREAT HARBOUR

Great Harbour is a unique seafront plot measuring over 35,000 square metres in Hidd, Bahrain. In line with the chosen exit route, the land is being subdivided into 14 plots and VCBank has provided the investors in Great Harbour with a choice of three exit options.

THE WORLD

VCBank owns a plot of land 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. An interested group of investors placed a deposit for the proposed purchase of the land in 2018. However, due to the planned completion date not being met, the deal may enter litigation.


German Orthopaedic Hospital

> "A key pillar of VCBank's investment strategy is the identification of attractive greenfield business opportunities with promising potential."

PRIVATE EQUITY

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.

FUDDRUCKERS & CARIBOU

VCBank has acquired a 60 per cent direct equity stake in the Fuddruckers Restaurant and Caribou Coffee franchises in the Kingdom of Bahrain, which constitute a growing cash-rich business. Fuddruckers and Caribou have been operating in the Kingdom since 1995 and 2007, respectively. There are currently 6 Fuddruckers and 22 Caribou Coffee outlets across Bahrain. Following the acquisition, several older properties have been renovated, while several new outlets are planned to be opened in the near future.

DELTA

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. In response to current market dynamics and changes in the Kingdom's construction sector, the Company has revised its strategy and fine-tuned its organisational structure. Delta has maintained profitability, and recently won a SAR 76.3 million power contract from the Government, while currently bidding for three additional contracts.

Caribou Coffee

INVESTMENT REVIEW (CONTINUED)

TURKEY FARMLAND

As at December 2018, the Company's total land bank had grown to 11.7 million square metres, comprising a total planted area of 7.9 million square metres with more than one million trees. The 2018 harvest was severely affected by hail and frost, but the target for 2019 entails planting around one million new trees and increasing the harvest to 13.5 million kilograms; with harvested fruits being sold to the fresh market. Turkey Farmland continues to implement initiatives aimed at increasing efficiency and profitability, and further diversifying its business activities. These include construction of a new production plant and cold storage units for fresh fruit processing; raising and breeding 1,000 sheep; and acquiring an extra 1.5 million square metres of land over the next three years.

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). The vessels have been chartered at rates higher than their daily operational costs. Due to the company's liabilities coming due and market circumstances, a sales process for the vessels has commenced. The sales of all four vessels is expected to be completed by December 2019.

MENA SHIPCO

MENA SHIPCO owns three modern 57,000 tons deadweight (DWT) Supramax bulk carrier vessels, which are currently deployed on short-time charters with reputable companies across various global shipping routes. The vessels have been profitable and are chartered at rates higher than their daily operational costs. Due to the company's liabilities coming due and market circumstances, a sales process for the vessels has commenced. The sale of all three vessels is expected to be completed by December 2019.

Turkey Farmland

MENA SME FUND

Established in 2006, the Fund's portfolio companies are JAFCCO, ITWorx and QCon (which are covered under 'Mature Investments Earmarked for Exit' at the beginning of this Review) and Challenger Limited, which is reported below.

CHALLENGER

The Company is an international provider of contract oil and gas land drilling and workover services, headquartered in Egypt and operating mainly in Libya through onshore drilling rigs. The situation in Libya remains uncertain, with political tensions unresolved, although Eastern Libya appears to be stabilising. Challenger has resumed operations in Libya with five active rigs, and is preparing six additional rigs to be available for new contracts as market activity improves.

The Company is also focusing on compiling its financial information and bringing it up to date to allow it to assess the most suitable actions to maximize shareholders' value.

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 is implementing 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.

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.

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 the growing demand for high-quality managed office space, The Lounge rented an additional floor during 2018 and plans to occupy another floor in 2019.

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 process of subdividing the land into smaller plots with separate title deeds, which is required for the sale process to start, remains subject to the completion of necessary legal procedures.

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.

Vcbank Liquidity Programmes

INVESTMENT REVIEW (CONTINUED)

REAL ESTATE

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 in a prime residential area of 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. A comprehensive renovation programme is nearing completion, which will further enhance its competitive edge. Due to its excellent performance to date, the property has been providing investors with quarterly dividend distributions equating to an annual cash-on-cash return of 8.5 per cent.

Westhaven at Vinings, USA

REGENT'S CRESCENT, UK

VCBank has invested in the acquisition and development of an iconic residential development in one of London's most prestigious residential areas. The building 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 superprime residential scheme offering 76 high-specification units, while retaining the details of the magnificent Nash frontage. Sales and marketing activities commenced in mid-2019 and construction is on schedule to achieve practical completion during the first half of 2020.

24 BUCKINGHAM GATE, UK

Situated in the heart of Westminster, 24 Buckingham Gate comprises nine 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. Six out of the nine apartments have been sold and the remaining three apartments are currently under offer.

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 534 residential units, and supporting amenities such as a swimming pool and gymnasium. Construction commenced in October 2018. The requisite licensing approvals from the Real Estate Regulatory Authority (RERA) was obtained and sales to the open market have commenced. .

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. The design for 53 villas and 84 apartments was completed during the year, and construction is pending the final subdivision approval.

"A primary focus of the Bank's investment philosophy is the acquisition and management of prime revenue-generating real estate properties."

POST-ACQUISITION

In line with its strategic realignment, VCBank adopts a 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 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, to ensure that they have appropriate and achievable exit paths before the acquisition process commences.

During FY 2019, 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 affected by financial, economic, market or geopolitical issues; and also to earmark mature investments for exit. Key developments during the year are covered by the Investment Review.

Difaaf, Bahrain

CORPORATE FUNCTION

"The CRM system is constantly updated to keep pace with the latest regulatory changes in order to provide the highest levels of support for shareholders and investors."

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, team members deliver regular portfolio updates, introduce new investment opportunities, offer insight into local and regional markets, and provide financial advisory to their clients.

Fiscal 2019 proved to be another challenging year, with investors continuing to adopt 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 and exits.

INVESTOR RELATIONS

The Investor Relations department is responsible for providing up-to-date information about the Bank's operations and delivering regular portfolio update reports, in order to help clients and shareholders make the most informed investment decisions. This standalone function, which reports directly to the Chief Executive Officer, works closely with Investments, Post-Acquisition, Wealth Management, Financial Control, Risk Management and Compliance, to provide the highest levels of client service in accordance with investor-related regulatory requirements of the Central Bank of Bahrain (CBB). The semi-annual Investment 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 an information standard for the automatic exchange of tax and financial information on a global level to combat tax evasion, similar to the US Foreign Account Tax Compliance Act (FATCA). The Bank's enhanced client relationship management (CRM) system enabled early submission of the mandatory CRS & FATCA report to the CBB in May 2019. The CRM system is constantly updated to keep pace with the latest regulatory changes in order to provide the highest levels of support for shareholders and investors.

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 four independent Board Committees, and through the Bank's Control Functions, with clear, direct and independent reporting lines.
4. A reputable and independent Shari'ah Supervisory Board.
5. A comprehensive annual self-assessment and evaluation of the Board and its Committees.
6. An effective set of Policies and Procedures to govern the activities of the Bank's Business Units and Support Functions.
7. An up-to-date and adequate formal succession plan for the Bank's key positions.

KEY DEVELOPMENTS DURING THE YEAR

- Mr. Yasir Mohammed Al Jarullah, Mr. Mohammed Saleh Al Athel and Mr. Sulaiman Abdulrahman Al Rashid resigned from the Board in October 2018.
- Mr. Adel Mohammed Abu Nayyan was elected as an independent and non-executive Director in October 2018.
- The Board of Directors comprised nine Members at the end of the fiscal year.
- The Exit Committee was disbanded in December 2018.

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 a maximum of 13 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' profiles are listed at the end of this Review.

SYSTEM FOR ELECTION AND TERMINATION OF DIRECTORS

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

BOARD COMMITTEES AND MEMBERSHIP

BOARD COMMITTEE	MEMBER'S NAME	MEMBER'S POSITION
Nomination, Remuneration & Corporate Governance Committee	Mohammed AlSarhan	Chairman
	Abdulfatah Marafie	Deputy Chairman
	Saleh Al Shanfari	Member
Audit Committee	Marwan Al Ghurair	Chairman
	Mohammed Jumaan	Deputy Chairman
	Adwan Aladwani	Member
Risk Committee	Saleh Al Shanfari	Chairman
	Adel Abu Nayyan	Deputy Chairman
	Mohammed Al Kandari	Member

BOARD AD-HOC COMMITTEES AND MEMBERSHIP

BOARD COMMITTEE	MEMBER'S NAME	MEMBER'S POSITION
Real Estate Committee	Abdulfatah Marafie	Chairman
	Mohammed Jumaan	Deputy Chairman
	Adwan Al Adwani	Member
	Adel Abu Nayyan	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 AT BOARD & COMMITTEE MEETINGS: JULY 2018 TO JUNE 2019

The Board of Directors and its Committees met regularly during the year towards fulfilling their responsibilities. Directors' attendance for FY 2019 is listed below:

Names of Directors	Board of Directors	Audit Committee	Risk Committee	Nomination, Remuneration & Corporate Governance Committee	Real Estate Committee	Exit Committee
Abdulfatah Marafie	8 of 8			2 of 2	4 of 4	
Mohammed Al Sarhan	8 of 8			2 of 2		1 of 1
Saleh Mohammed Al Shanfari	8 of 8		4 of 4	2 of 2		
Abdullatif Mohamed Janahi	8 of 8			2 of 2		
Marwan Ahmad Al Ghurair	8 of 8	4 of 4		1 of 1		
Adwan Al Adwani	4 of 8	4 of 4			2 of 2***	1 of 1
Sulaiman Al Rashid*	0 of 4		0 of 2		1 of 2	
Mohammed Al Athel*	3 of 4		1 of 2			0 of 1
Mohammed Al Kandari	7 of 8		2 of 2***			1 of 1
Mohammed Jumaan	8 of 8	4 of 4			4 of 4	
Yaser Aljarallah*	3 of 4	2 or 2	2 of 2			
Adel Mohammed Abu Nayyan**	3 of 4		1 of 2***		1 of 2	

*Resigned from the Board in October 2018
** Elected as an independent and non-executive Director in October 2018
***Elected as a member of the committee in December 2018

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. During the year, the Bank conducted a strategy workshop for Board Members to revisit the Bank's strategic plan and objectives, and revise the strategy in line with market conditions.

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 10 of this Annual Report.

MANAGEMENT

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

EXECUTIVE MANAGEMENT COMMITTEE

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

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 focuses on revenue-generating real estate investments, greenfield business development opportunities and very selective private equity transactions. 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, suspicious transaction reporting (STR), combating the financing of terrorism, recordkeeping, and staff AML education and training.

The Bank's compliance with the Anti-Money Laundering regulations is monitored by its Money Laundering Reporting Officer (MLRO) and Deputy MLRO; and independently assessed, both internally and externally, by Internal Audit and the Bank's external auditors on an annual basis.

RISK MANAGEMENT

VCBank adopts 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.

> "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."

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. 2 Board Members were not able to attend 75% of the Board meetings during the financial year).

VCBANK'S EXPLANATION:

The inability of two Board members to attend at least 75% of all Board meetings was due to pre-arranged business commitments and unexpected business travel arrangements. Board Members who have not attended the minimum attendance requirements have been alerted to correct their participation in the future.

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:

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.

FINANCIAL PENALTIES

During FY 2018, the Central Bank of Bahrain (CBB) imposed one financial penalty on the Bank in accordance with Section EN-6.2A of the CBB Rulebook - Volume 2 for the amount of BD 50,001 for non-timely reporting in the 30th September 2018 Quarterly Financials of a $5.7mm Trade Finance Placement.

BOARD AND EXECUTIVE MANAGEMENT REMUNERATION

The Nomination, Remuneration & Corporate Governance Committee (NRCGC) 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 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 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 2019 is disclosed in the table on page 34. The members of the NRCGC received sitting fees of USD 14,000 during the year ended 30 June 2019 (2018: USD 16,000).

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 2019 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, in determining the amount and distribution of variable remuneration to employees.

In compliance with the regulations, the CEO and his key deputies, including senior Investment 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.

"In line with best practice, the Bank uses appropriate corporate and individual scorecard measures of returns and risks, in determining the amount and distribution of variable remuneration to employees"

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, among other factors, 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 while relating it to the specific circumstances and activities of the Bank. The remuneration policy is subject to annual review to ensure it properly reflects the Bank's business and risk profile from time to time, so that the objective of ensuring that staff are rewarded in line with performance with due regard for risk taken is achieved.

SUMMARY OF COMPENSATION FOR FISCAL YEAR ENDED 30 JUNE 2019

Particulars	No.	Fixed	Variable*		Total
		Upfront	Upfront	Deferred	$'000
Members of the Board	9	355	-	-	355
Members of Shari'ah Supervisory Board	3	85	-	-	85
Approved persons in business lines	3	2,882	-	-	2,882
Approved persons in control & support	8	1,396	-	-	1,396
Other staff	39	2,365	-	-	2,365
Total		7,083			7,083

* There was no variable remuneration for the year ended 30 June 2019. 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 2019

Deferred Awards	No. Of Units '000	Nav $	Value $'000
Opening balance	487	0.87	424
Awarded during year	-	-	-
Paid during year	(310)	0.87	(270)
Changes in value during year	-	(0.33)	(59)
Closing balance	177	0.54	96

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 2018

Particulars	No.	Fixed	Variable*		Total
		Upfront	Upfront	Deferred	$'000
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
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

BOARD MEMBERS' PROFILES

ABDULFATAH MOHAMMED RAFIE MARAFIE

Chairman
State of Kuwait
Independent & Non-Executive Director
Elected 6 October 2016
(Deputy Chairman from 6/10/2005 – 5/10/2016)
39 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; 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
42 years' experience

VCBank Committees: Chairman of Nomination, Remuneration & Corporate Governance 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
36 years' experience

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

Deputy Chairman: Challenger Oil Drilling Company; Goknur Foods Import Export Trading & Production Company, Turkey; TOPSU TARIM HAYVANCILIK GIDA SANAYİ VE TİCARET ANONİM ŞİRKETİ (Turkey Farmland).

Board Member: Qatar Engineering & Construction Company (QCON); Bayan Realty Company, Saudi Arabia; Regent's Crescent, London; Bahrain Association of Banks (BAB).

MARWAN AHMAD AL GHURAIR

Board Member
United Arab Emirates
Independent and Non-Executive Director
Elected 6 October 2005
29 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
31 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: Albashayer Meat Company, Oman.

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 Real Estate, Oman; 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
44 years' experience

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

Chairman & Chief Executive Officer: Al Salmiya Group for Enterprise Development Company, Kuwait.

Chairman: Kuwait Resorts 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; Vacation Club Venture BV, Dubai – UAE.

MOHAMMED ABDULRAZZAQ ALKANDARI

Board Member
State of Kuwait
Non-Independent and Non-Executive Director
Elected 25 April 2012
19 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.

DR. MOHAMMED AHMED JUMAAN

Board Member
Kingdom of Bahrain
Independent and Non-Executive Director
Elected 24 January 2016
37 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.

Chartered Professional Engineer

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

ADEL MOHAMMED ABU NAYYAN

Board Member
Kingdom of Saudi Arabia
Independent and Non-Executive Director
Elected 24 October 2018
24 years' experience

VCBank Committees: Member of Risk Committee, Member of Real Estate Committee.

Board Member: Mohammad Rashed Abu Nayyan Trading & Investment Co. Ltd, General Director & Chairman of the Real Estate and Investment Committee of the company; Delta Company Limited.

Representative of Mohammad Rashed Abunyyan Trading and Investment Company in:-

- Union Salihia Closed Joint Stock Company.
- Member of the Board of Directors of Phoenix Medical Hospitals Group - London.

EXECUTIVE MANAGEMENT PROFILES

ABDULLATIF MOHAMED JANAHI, FCMA

Board Member & Chief Executive Officer
Chairman of the Executive Management Committee
Joined VCBank in 2005
36 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
20 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

Head of Investments & Post-Acquisition
Member of Executive Management Committee
Joined VCBank in 2017
34 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.

MAHMOOD MOHAMMED ZAINAL

Director - Investments
Joined VCBank in 2008
16 years' experience

Mahmood Zainal has extensive experience in investment banking across the Middle East. His specialist expertise includes deal origination, valuations and modelling, post-investment management and due diligence, with a particular focus on real estate and private equity. Prior to joining VCBank, he spent five years with Kuwait Finance House - Bahrain, where he worked in Investments, Retail Banking and Customer Service; having started his career with American Express, Bahrain. Mahmood holds a Bachelor of Commerce degree from the John Molson School of Business at Concordia University, Montreal, Canada. He has also attended the Leadership Grooming Program conducted by the Ivey Business School, University of Western Ontario, Canada.

AHMED HASAN ALABBASI

Director - Investments
Joined VCBank in 2006
18 years' experience

Ahmed Alabbasi is a well-seasoned investment professional with sound experience in private equity, real estate and financial advisory. He has developed particular expertise in deal origination, structuring and engineering; acquisition and turnaround strategy; and post-acquisition monitoring and exit planning. Prior to joining VCBank, he was Group Head of Strategic and Direct investments at Bahrain National Holding. Ahmed is a Certified Financial Risk Manager (FRM) and a Fellow of the Global Association of Risk Professionals, (GARP), USA. He holds a Master's degree in Finance & Investments from the University of Exeter, UK; and a Bachelor's degree in Business Management from the University of Bahrain.

ASYA HASAN, CPA

Head of Internal Audit
Member of the Executive Management Committee
Joined VCBank in 2015
21 years' experience

Asya Hasan has extensive experience in the field of audit and accounting professional practices. She has specialist expertise 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.

MOHAMED KHALID ATEEQ, CAMS, AMLCA, INT. DIP (Comp)

Head of Compliance & MLRO
Member of the Executive Management Committee
Joined VCBank in 2018
14 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 leading Bahraini fintech company specialising in biometric payment technology services and the first to set up fingerprint payment ATMs across Bahrain. 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.

HUDA FAISAL JANAHI, CIPA, APRM

Head of Risk Management
Member of the Executive Management Committee
Joined VCBank in 2007
15 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.

JEHAD HASAN QAMBER

Head of Human Resources & Support
Member of the Executive Management Committee
Joined VCBank in 2005
30 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.

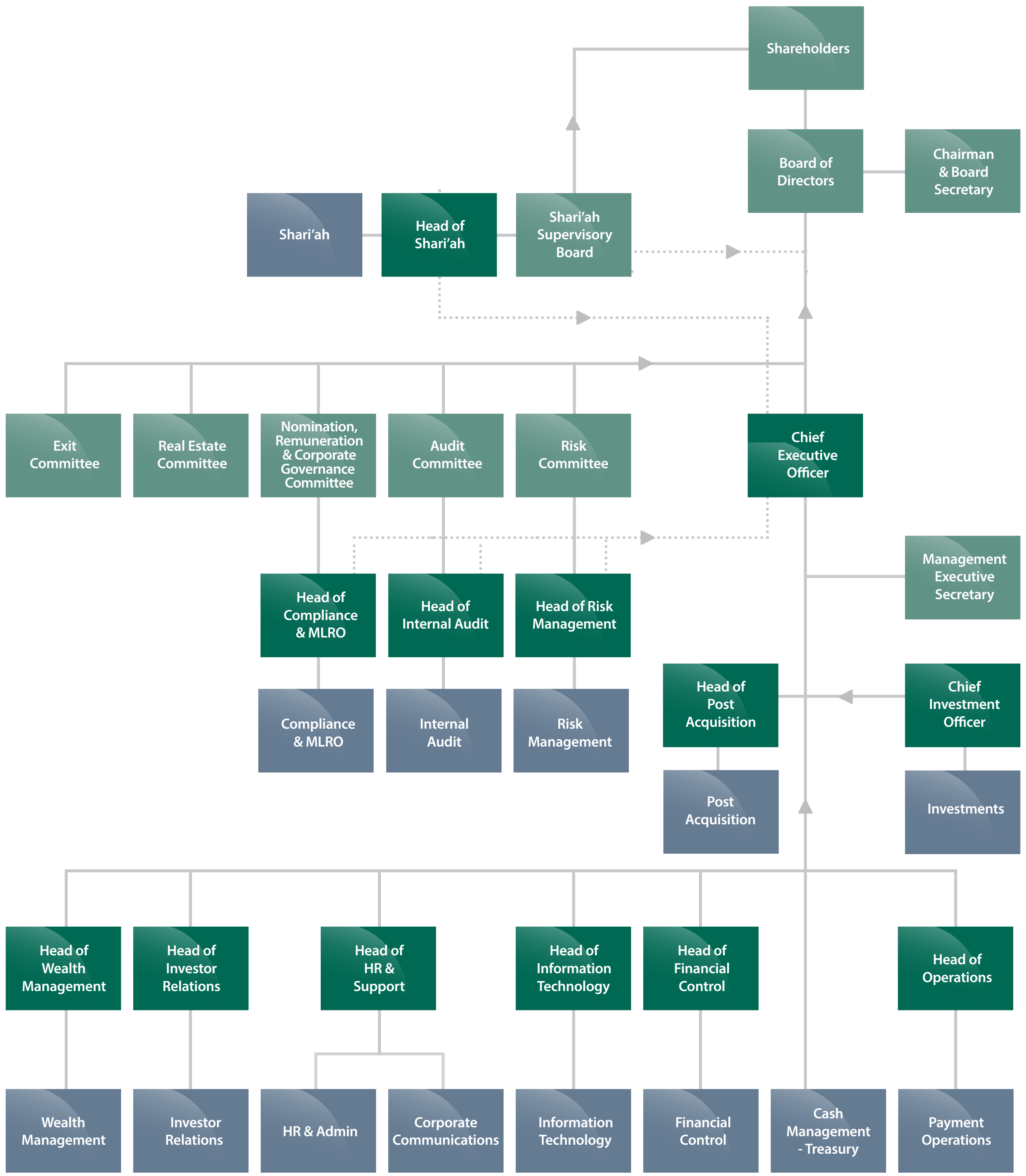
SAHAR JAAFAR KHUNJI, ACIPD

Head of Investor Relations
Member of the Executive Management Committee
Joined VCBank in 2007
12 years' experience

During her career to date with VCBank, Sahar Khunji has developed specialist experience in the areas of investor relations, human resources and corporate communications. Prior to assuming her current position in 2016, she was a Principal in the Bank's Operations & Support division, with responsibilities covering investor relations, human resources and corporate communications. Sahar is an Associate of the Chartered Institute of Personnel & Development (CIPD), UK; and holds a Bachelor's degree in Business (Economics & Finance) from Central Queensland University, Australia.

CORPORATE GOVERNANCE REVIEW
(CONTINUED)

GOVERNANCE AND ORGANISATION STRUCTURE



THE BANK'S INDEPENDENT GOVERNANCE CONTROL FUNCTION ASSIST THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT IN UPHOLDING THE HIGHEST STANDARDS OF REGULATORY COMPLIANCE AND INDUSTRY BEST PRACTICE.

CONTENTS

FINANCIAL STATEMENTS

VENTURE CAPITAL BANK

In the name of Allah the Merciful, the Compassionate

Report of the Shari'ah Supervisory Board for period from 01/07/2018 to 30/06/2019

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 01/07/2018 to 30/06/2019.

It has studied and discussed, with the Bank's management, the financial statements and the income statement for the period from 01/07/2018 to 30/06/2019.

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 circumstance and local and international changes they weren't able to achieve the requirement during the year 2018-2019.

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 as been presented.

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 Sunday, 16/01/1441 H, corresponding to the 15/09/2019

Venture Capital Bank, P.O. Box 11755, Manama, Kingdom of Bahrain
T +973 17 518 888 • F +973 17 51 8880 • E info@vc-bank.com - www.vc-bank.com
Licensed as an Islamic Wholesale Bank by the CBB

REPORT OF THE AUDITORS

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS

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 2019, 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 2019, 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.

Material uncertainty related to going concern

Without qualifying our opinion, we draw attention to note 2 to these consolidated financial statements. During the year ended 30 June 2019, the Group incurred a net loss of USD 58,181 thousand, and as of that date, the Group's total liabilities with maturity up to 12 months exceeded its total assets with the same maturity representing a net liquidity gap of USD 47,169 thousand. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

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

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 Chairman's statement is consistent with the consolidated financial statements.

Except for matters discussed in note 3, 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 2019 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 Bank.

Ernst & Young

Partner's registration no. 45
12 December 2019
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Note	30 June 2019 USD '000	30 June 2018 USD '000
ASSETS			
Balances and placements with banks	9	**10,175**	7,326
Investments	10	**110,982**	151,516
Investments in associates and joint venture accounted under the equity method	11	**22,701**	26,666
Murabaha financing to investee companies	12	**30,406**	38,597
Wakala contract receivable	13	**10,672**	-
Receivables	14	**1,976**	33,420
Funding to project companies	15	**5,693**	3,025
Other assets	16	**26,678**	23,795
Property and equipment	17	**7,480**	7,816
TOTAL ASSETS		**226,763**	292,161
LIABILITIES			
Islamic financing payables	18	**109,692**	109,155
Employee accruals		**1,440**	2,092
Other liabilities	19	**13,145**	15,456
Total liabilities		**124,277**	126,703
EQUITY			
Share capital	20	**190,000**	190,000
Statutory reserve	20	**5,859**	5,859
Foreign currency translation reserve		**(71)**	(71)
Accumulated losses		**(93,302)**	(30,330)
Total equity		**102,486**	165,458
TOTAL LIABILITIES AND EQUITY		**226,763**	292,161
OFF BALANCE SHEET ITEMS			
Equity of investment account holders		**1,887**	2,106

Abdulfatah Mohd. Rafie Marafie
Chairman

Abdullatif M. Janahi
Board Member
and Chief Executive Officer

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

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 30 JUNE 2019

	Note	30 June 2019 USD '000	30 June 2018 USD '000
REVENUE			
Income from investment banking services - net	21	**2,153**	1,218
Gain on sale of investment	22	**1,133**	6,338
Finance income	23	**4,072**	4,785
Dividend income		**1,400**	1,406
Rental and other income	24	**1,786**	2,447
Total revenue		**10,544**	16,194
OTHER LOSSES			
Fair value losses on investments carried at fair value through profit or loss - net	25	**(35,069)**	(3,833)
Total (loss) income		**(24,525)**	12,361
EXPENSES			
Staff costs	26	**7,061**	5,745
Travel and business development expenses		**427**	431
Legal and professional fees		**790**	773
Finance expense	23	**5,369**	5,623
Depreciation	17	**342**	385
Other expenses	28	**3,645**	3,026
Total expenses		**17,634**	15,983
LOSS BEFORE IMPAIRMENT PROVISIONS AND SHARE OF LOSSES OF ASSOCIATES AND JOINT VENTURE		**(42,159)**	(3,622)
Provisions for credit losses - net	27	**(15,963)**	(1,492)
Share of losses of associates and joint venture - net	11	**(59)**	(132)
NET LOSS FOR THE YEAR		**(58,181)**	(5,246)

Abdulfatah Mohd. Rafie Marafie
Chairman

Abdullatif M. Janahi
Board Member
and Chief Executive Officer

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

	Note	30 June 2019 USD '000	30 June 2018 USD '000
OPERATING ACTIVITIES			
Net loss for the year		**(58,181)**	(5,246)
Adjustments for non-cash items:			
Gain on sale of investments	22	**(1,133)**	(5,263)
Share of results of associates and joint venture accounted under the equity method	11	**59**	132
ECL charged on balances and placement with banks	3.4.1	**7**	-
Provisions for credit losses - net	27	**15,963**	1,492
Depreciation	17	**342**	385
Dividend income		**(1,400)**	(1,406)
Fair value losses on investments carried at fair value through profit or loss - net	25	**35,069**	3,833
Operating loss before changes in operating assets and liabilities		**(9,274)**	(6,073)
Changes in operating assets and liabilities:			
Investments		**4,381**	10,756
Investments in associates and joint venture accounted under the equity method		**(53)**	(192)
Murabaha financing to investee companies		**1,287**	(3,847)
Wakala contract receivable		**(13,340)**	-
Receivables		**27,638**	(16,790)
Funding to project companies		**(4,386)**	(3,025)
Other assets		**(3,152)**	3,695
Employee accruals		**(652)**	(631)
Other liabilities		**(2,410)**	7,546
Net cash from (used in) operating activities		**39**	(8,561)
INVESTING ACTIVITIES			
Dividends received		**2,304**	900
Property and equipment - net	17	**(6)**	(124)
Net cash from investing activities		**2,298**	776
FINANCING ACTIVITY			
Islamic financing payables		**537**	7,481
Net cash from financing activity		**537**	7,481
Foreign currency translation adjustments		**-**	59
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**2,874**	(245)
Cash and cash equivalents at beginning of the year		**7,326**	7,571
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**10,200**	7,326
Comprising:			
Balances in current and call accounts	9	**7,330**	5,285
Short-term placements	9	**2,870**	2,041
		10,200	7,326

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

	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 2018		190,000	5,859	(71)	(30,330)	165,458
Transition adjustment on adoption of FAS 30 as of 1 July 2018		-	-	-	(4,791)	(4,791)
Restated balance as of 1 July 2018		190,000	5,859	(71)	(35,121)	160,667
Net loss for the year		-	-	-	(58,181)	(58,181)
Balance at 30 June 2019		**190,000**	**5,859**	**(71)**	**(93,302)**	**102,486**
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	11	-	-	59	-	59
Balance at 30 June 2018		190,000	5,859	(71)	(30,330)	165,458

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

CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNT HOLDERS

FOR THE YEAR ENDED 30 JUNE 2019

2019	Balance as at 1 July 2018 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 2019 USD '000
GCC Pre IPO Fund	**2,106**	**(227)**	**8**	**-**	**-**	**1,887**

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

	2019 USD '000	2018 USD '000
Investment in equities	**1,821**	2,040
Dividends receivable	**64**	64
Balances with banks	**2**	2
Total as at 30 June	**1,887**	2,106

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 beneficial 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 38 form part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT 30 JUNE 2019

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 7 for details of the Bank's subsidiaries.

These consolidated financial statements were approved by the Bank's Board of Directors on 28 November 2019.

2 FUNDAMENTAL ACCOUNTING ASSUMPTION

The Group incurred a net loss of USD 58,181 thousand (2018: net loss of USD 5,246 thousand) during the year ended 30 June 2019, and as of that date, the Group's total liabilities with maturity up to 12 months exceeded its total assets with the same maturity representing a net liquidity gap of USD 47,169 thousand. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Subsequent to year ended 30 June 2019, the following has been taken to bridge the Group's net liquidity gap:

- Sale of vessels pledged as collateral against the Group's Murabaha financing to investee companies for a net consideration of USD 28,779 thousand (refer note 12).
- The Group settled its Islamic financing payable to a locally incorporated Islamic bank amounting to USD 25,764 thousand (refer note 18.2).
- Management is under process of restructuring its Islamic financing payable amounting to USD 70,687 thousand maturing in January 2020. The Group expects to settle 50% and roll over the remaining balance payable for a period of two years.
- Discussions with potential buyers to dispose of investments amounting USD 33.8 million.

This will enable the Group to continue as a going concern and to settle its obligations to third parties as and when they fall due. Additionally, the shareholders do not have any intention to liquidate the Bank, hence these consolidated financial statements have been prepared on a going concern basis. In the event of distress sale of the Group's asset, their net realisable value might not approximate its fair value as at 30 June 2019.

3 BASIS OF PREPARATION

3.1 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 except as noted below:

- The Bank's total capital adequacy ratio ("CAR") is 11.12% as of 30 June 2019, which is in breach of the minimum requirement of 12.5% as prescribed under CA-2.2.1, Volume 2 of the CBB rule book.

3 BASIS OF PREPARATION (continued)

3.1 Statement of compliance (continued)
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.

3.2 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.

3.3 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.

3.4 Significant accounting policies
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 2018, except for the adoption of new standards and interpretations effective for the financial year beginning on or after 1 January 2018.

3.4.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30")
The Group has early adopted FAS 30, effective from 1 July 2018 which has a mandatory date of initial application of 1 January 2020. The requirements of FAS 30 represent a significant change from FAS 11 "Provisions and Reserves".

As permitted by FAS 30, the standard has been applied retrospectively and the comparative amounts have not been restated. The impact of the early adoption of FAS 30 has been recognised in accumulated losses in the consolidated statement of changes in equity. The standard eliminates the use of the existing FAS 11 incurred loss impairment model approach.

Transition
Changes in accounting policies resulting from the adoption of FAS 30 have been applied retrospectively, except comparative periods which have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of FAS 30 are recognised in accumulated losses as at 1 July 2018. Accordingly, the information presented for June 2018 does not reflect the requirements of FAS 30 and therefore is not comparable to the information presented for June 2019 under FAS 30.

3 BASIS OF PREPARATION (continued)

3.4 Significant accounting policies (continued)

3.4.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

Impact of adopting FAS 30	*Balance at 30 June 2018 USD '000*	*Transition adjustment USD '000*	*Balance at 1 July 2018 USD '000*
Accumulated losses	**(30,330)**	**(4,791)**	**(35,121)**
Balances and placements with banks	7,326	(14)	**7,312**
Murabaha financing to investee companies	38,597	(2,325)	**36,272**
Receivables	33,420	(1,452)	**31,968**
Funding to project companies	3,025	(501)	**2,524**
Other assets	23,795	(400)	**23,395**
Other liabilities	15,456	99	**15,555**

The key changes to the Group's accounting policies resulting from its adoption of FAS 30 are summarised below:

a) Financial contracts
Financial contracts consist of balances and placements with banks, Murabaha financing to investee companies, Wakala contract receivable, receivables, funding to project companies, certain other assets and contingencies and commitments. Balances relating to these contracts are stated net of allowance for credit losses.

b) Impairment assessment (policy applicable from 1 July 2018)

Impairment of financial assets
FAS 30 replaces the 'incurred loss' model in FAS 11 with Expected Credit Loss (ECL) model. The new impairment model also applies to certain financing commitments and financial guarantee contracts but not to equity investments.

The Group applies three-stage approach to measure ECL on financial assets carried at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: twelve months ECL
For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the lifetime ECL's that represent the ECL that result from default events on a financial contract that is possible within 12 months after the reporting date (or a shorter period if the expected life of the financial instrument is less than 12 months) of the lifetime ECL associated with the probability of default events occurring within next twelve months after the reporting date is recognised.

Stage 2: lifetime ECL – not credit impaired
For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised. Lifetime ECL is the loss that results from all possible default events over the expected life of the financial contract.

Lifetime ECL (Stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Group and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

Stage 3: Lifetime ECL – credit impaired
Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

3 BASIS OF PREPARATION (continued)

3.4 Significant accounting policies (continued)

3.4.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

b) Impairment assessment (policy applicable from 1 July 2018) (continued)

Stage 3: Lifetime ECL – credit impaired (continued)
For Stage 3 financial contracts, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract. As this uses the same criteria as under FAS 11, the Group methodology for specific allowance for credit losses remains largely unchanged.

In case where there is no collaterals or guarantees which the Group can recover its exposure, the past due rules as per Group's policy or local requirements, whichever is more strict, are applied for allowance for credit losses calculation.

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- probability that the borrower will enter bankruptcy or other financial reorganization; or
- the restructuring of a facility by the Group on terms that the Group would not consider otherwise.

Measurement of ECL
The Group has developed an ECL Policy and measurement approach that appropriately reflects its credit exposures keeping in mind the nature of its exposures which are primarily to its own investees.

Given that the Group is not in the business of extending loans and financing, the Group's ECL provisioning approach is based on a detailed evaluation of all its individual exposures together with a provisioning matrix reflecting the expected credit losses for non-impaired exposures using the practical expedient under FAS30.

The parameters in the loss ratios matrix are generally derived from internally developed models and other historical data and range from 0.25% for balances with banks of good standing to 15% for fundings to investees which are assessed to fall under stage 2 .

Definition of default
The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as liquidating collateral; or the borrower is past due more than the expected due date of settlement to the Group. In assessing whether a borrower is in default, the Group considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on other obligations of the same or closely connected counterparty to the Group.

Probability of default ("PD")

Types of PDs used for ECL computation

- 12-month PDs – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs.

- Lifetime PDs – This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for 'stage 2'.

3 BASIS OF PREPARATION (continued)

3.4 Significant accounting policies (continued)

3.4.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

b) Impairment assessment (policy applicable from 1 July 2018) (continued)

Definition of default (continued)

Incorporation of forward - looking information
Incorporating forward-looking information increases the level of judgment as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category and subject to specific impairment provision). As per the policy the methodologies and assumptions involved, including any forecasts of future economic conditions, and the resultant ECL provision matrix are required to be reviewed periodically.

Loss Given Default ("LGD")
LGD is a parentage that determine the amount of loss that will arise if the borrower was to default. This is calculated by looking at the collateral and other resources available to the Group that can be used to recover the asset in case of default.

Exposure At Default ("EAD")
EAD represents estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, and expected drawdowns on committed facilities.

On-balance sheet EADs
EADs for on-balance sheet items are the amount that is outstanding at the time of default. Outstanding of an on-balance sheet exposure shall be directly taken subject to inclusion of its repayment structure.

Off-balance sheet EADs
Off-balance sheet exposures do not have fixed payout date; thus, the EAD for off-balance sheet is calculated after applying the Credit Conversion Factor (CCF) to the nominal amount of the off-balance sheet exposure. In absence of internal data, the Group uses Basel CCF's for Capital Adequacy Ratio (CAR) purposes as per the CBB regulations. These rates are 20% for exposures with maturity equal to or less than 1 year and 50% for exposures with maturity of more than 1 year.

Collective ECL computation and staging
To assess the staging of exposures and to measure a loss allowance on a collective basis, the Group groups its exposures into segments on the basis of shared credit risk characteristics, such as geography, type of customer, industry, rating, date of initial recognition, maturity and collateral value.

Significant increase in credit risk
When determining whether the risk of default on a financial contracts has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost and efforts. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment including forward-looking information.

The assessment is carried out for specific instrument rather than a counterparty. As each instrument may have had different credit risk at initial recognition.

3 BASIS OF PREPARATION (continued)

3.4 Significant accounting policies (continued)

3.4.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

b) Impairment assessment (policy applicable from 1 July 2018) (continued)

Impairment of financial assets (continued)

Significant increase in credit risk (continued)

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of credit losses allowances.

	30 June 2019			
	Stage 1 USD '000	***Stage 2 USD '000***	***Stage 3 USD '000***	***Total USD '000***
Exposures subject to ECL				
Balances and placement with banks	10,200	-	-	10,200
Murabaha financing to investee companies	-	1,420	36,410	37,830
Wakala contract receivable	-	-	13,341	13,341
Receivables	591	163	9,740	10,494
Funding to project companies	-	7,711	70	7,781
Other assets*	-	3,334	2,711	6,045
	10,791	**12,628**	**62,272**	**85,691**
Guarantees and commitments	39,440	-	-	39,440
	50,231	**12,628**	**62,272**	**125,131**

	1 July 2018			
	Stage 1 USD '000	*Stage 2 USD '000*	*Stage 3 USD '000*	*Total USD '000*
Exposures subject to ECL				
Balances and placement with banks	7,326	-	-	7,326
Murabaha financing to investee companies	37,199	1,398	-	38,597
Receivables	25,780	7,640	4,293	37,713
Funding to project companies	-	3,025	70	3,095
Other assets*	3,614	3,042	3,200	9,856
	73,919	15,105	7,563	96,587
Guarantees and commitments	39,493	-	-	39,493
	113,412	15,105	7,563	136,080

*Other assets subject to ECL excludes advances to invest (refer note 16).

3 BASIS OF PREPARATION (continued)

3.4 Significant accounting policies (continued)

3.4.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

b) Impairment assessment (policy applicable from 1 July 2018) (continued)

Impairment of financial assets (continued)

Significant increase in credit risk (continued)

An analysis of the changes in ECL allowances, is as follows:

	Stage 1: 12-month ECL USD '000	***Stage 2: Lifetime ECL not credit-impaired USD '000***	***Stage 3: Lifetime ECL credit-impaired USD '000***	***Total USD '000***
Balance at 1 July on adoption of FAS 30				
Balances and placement with banks	(18)	-	-	(18)
Murabaha financing to investee companies	(2,790)	(210)	-	(3,000)
Wakala contract receivable	-	-	-	-
Receivables	(1,289)	(584)	(4,293)	(6,166)
Funding to project companies	-	(647)	(70)	(717)
Other assets	(181)	(335)	(2,693)	(3,209)
Guarantees and commitments	(99)	-	-	(99)
	(4,377)	**(1,776)**	**(7,056)**	**(13,209)**
Reversal / (charge) during the period				
Balances and placement with banks	(7)	-	-	(7)
Murabaha financing to investee companies	2,790	(74)	(7,140)	(4,424)
Wakala contract receivable	-	-	(2,669)	(2,669)
Receivables	1,231	512	(4,095)	(2,352)
Funding to project companies	-	(1,371)	-	(1,371)
Other assets	181	(50)	-	131
Guarantees and commitments	-	-	-	-
	4,195	**(983)**	**(13,904)**	**(10,692)**
Balance at 30 June 2019				
Balances and placement with banks	(25)	-	-	(25)
Murabaha financing to investee companies	-	(284)	(7,140)	(7,424)
Wakala contract receivable	-	-	(2,669)	(2,669)
Receivables	(58)	(72)	(8,388)	(8,518)
Funding to project companies	-	(2,018)	(70)	(2,088)
Other assets	-	(385)	(2,693)	(3,078)
Guarantees and commitments	(99)	-	-	(99)
As at 30 June 2019	**(182)**	**(2,759)**	**(20,960)**	**(23,901)**

During the year ended 30 June 2019, an exposure amounting USD 36,410 thousand relating to 'Murabaha financing to investee companies' and its ECL of USD 2,790 thousand has been transferred from stage 1 to stage 3. Additionally, an exposure amounting USD 13,341 thousand relating to 'Wakala contract receivable' and its ECL of nil has been transferred from stage 2 to stage 3 (refer note 13).

4 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

Details of estimates and related sensitivity analysis are disclosed in notes 37 and 38.

Impairment on assets carried at amortised cost
Judgement by management is required in the estimation of the amount and timing of future cash flows when determining impairment loss. In estimating these cash flows, the Group makes judgements about the liquidity of the project, evidence of deterioration in the financial health of the project, impacts of delays in completion of the project and the net realisable value of any underlying assets. These estimates are based on assumptions about a number of factors, and actual results may differ, resulting in future changes to the allowance.

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

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

4 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.

5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

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 28 Murabaha and other deferred payment sales
This standard prescribes the accounting and reporting principles and requirements for Murabaha and deferred payment sales transactions and different elements of such transaction. This standard supersedes the earlier FAS 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS 20 "Deferred Payment Sale". This standard shall be effective beginning on or after 1 January 2019, with early adoption permitted.

FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar)
This standard intends to define the accounting principles and reporting requirements for investment agency (Al-Wakala Bi Al-Istithmar) transactions and instruments, in the hands of both the principal and the agent. This standard shall be effective beginning on or after 1 January 2020, with early adoption permitted.

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

6 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.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Foreign currency transactions (continued)

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

(b) Financial assets and liabilities

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

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

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

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

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

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

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

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

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

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial assets and liabilities (continued)

(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.

(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.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Investments (continued)

(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.

(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.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Investments (continued)

(v) Impairment of investments (continued)
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 provision for credit losses. Impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses, if any, are recognised in the consolidated statement of income and reflected in an allowance account against the respective financial asset.

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

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

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

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

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

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

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

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

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investment in a joint venture accounted under the equity method (continued)
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.

(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.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Revenue recognition (continued)

Income from investment banking services (continued)

(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.

(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 30.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

7 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 achieved control of the entity in June 2018.
Venture Foods S.P.C. *	2016	60%	Kingdom of Bahrain	To own a wholesale and/or retail of food and beverages in the Kingdom of Bahrain. The Group achieved control in October 2018.

* The Group's investment in GMCB Co. W.L.L. and Food Vest Holding W.L.L. are not consolidated on a line by line basis where control was deemed to be temporary in nature and the Group's intension is to dispose of the entities within twelve months from acquisition and management is actively seeking a buyer in accordance with FAS 23. The carrying value of these unconsolidated subsidiaries are currently classified under Investments as held for sale amounting USD 13,103 thousand as at 30 June 2019.

8 CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

At 30 June 2019	***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	-	-	10,175	10,175
Investments	75,163	35,819	-	110,982
Murabaha financing to investee companies	-	-	30,406	30,406
Wakala contract receivable			10,672	10,672
Receivables	-	-	1,976	1,976
Funding to project companies	-	-	5,693	5,693
Other assets	-	-	26,540	26,540
TOTAL FINANCIAL ASSETS	**75,163**	**35,819**	**85,462**	**196,444**
LIABILITIES				
Islamic financing payables	-	-	109,692	109,692
Other liabilities	-	-	9,563	9,563
TOTAL FINANCIAL LIABILITIES	**-**	**-**	**119,255**	**119,255**
OFF BALANCE SHEET ITEMS				
Equity of investment account holders	-	1,821	66	1,887

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

9 BALANCES AND PLACEMENTS WITH BANKS

	30 June 2019 USD '000	*30 June 2018 USD '000*
Balances in current and call accounts	**7,330**	5,285
Short-term placements with financial institutions	**2,871**	2,041
Less: Deferred profits	**(1)**	-
	10,200	7,326
Less: ECL provision	**(25)**	-
	10,175	7,326

Short-term placement comprises of wakala placement with a locally incorporated Islamic bank at an expected profit rate ranging between 2.1% to 0.72% (2018: 2% and 1.85%) maturing within 90 days of initial placement. The Group's balances and placements with banks includes USD 5,130 thousand of investors' funds received in transit. Subsequent to 30 June 2019, the Group have transferred these funds to its respective project company bank account.

10 INVESTMENTS

	30 June 2019 USD '000	*30 June 2018 USD '000*
Investments at fair value through profit or loss		
Quoted equities held for trading	**4,090**	3,951
Unquoted:		
Equities	**67,788**	89,112
Fund	**3,285**	6,634
	75,163	99,697
Available-for-sale investments ("AFS")		
Unquoted equities	**34,015**	37,859
Short term liquidity certificates	**1,804**	13,960
	35,819	51,819
	110,982	151,516

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 2019 USD '000	*30 June 2018 USD '000*
Real estate projects	**22,677**	34,735
Business development projects	**12,772**	12,772
Healthcare projects	**-**	3,730
Financial services	**370**	582
	35,819	51,819

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

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

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

			% holding	
Name of associate	*Nature of business*	*Country of incorporation*	*30 June 2019*	*30 June 2018*
Mozon Holding SA	Investment development	Kingdom of Morocco	**20.00**	20.00
Venture Capital Fund Bahrain	Small & medium enterprises investment fund	Kingdom of Bahrain	**30.00**	30.00

			% holding	
Name of joint venture	*Nature of business*	*Country of incorporation*	*30 June 2019*	*30 June 2018*
Global Real Estate Co. W.L.L.	Real estate development	Kingdom of Bahrain	**50**	50

The carrying value comprises:	*30 June 2019 USD '000*	*30 June 2018 USD '000*
Associates	**1,396**	1,733
Joint venture	**21,305**	24,933
	22,701	26,666

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

	30 June 2019 USD '000	*30 June 2018 USD '000*
At 1 July	**26,666**	26,960
Acquisitions / additional investments during the year	**53**	133
Foreign currency differences	**-**	59
Impairment provisions charged	**(3,959)**	(354)
Share of losses of associates and joint venture, net	**(59)**	(132)
At 30 June	**22,701**	26,666

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

	30 June 2019 USD '000	*30 June 2018 USD '000*
Total assets	**79,189**	76,084
Total liabilities	**24,189**	22,000
Total revenues for the year	**110**	117
Total net loss for the year	**(17)**	(112)

12 MURABAHA FINANCING TO INVESTEE COMPANIES

	30 June 2019 USD '000	*30 June 2018 USD '000*
Financing to an investee companies in the following sectors:		
Shipping	**36,410**	37,199
United Kingdom real estate	**1,420**	1,398
	37,830	38,597
Less: ECL provision	**(7,424)**	-
At 30 June	**30,406**	38,597

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.

Subsequent to 30 June 2019, the Group disposed the underlying assets for a net consideration of USD 28,779 thousand.

13 WAKALA CONTRACT RECEIVABLE

Wakala contract receivable represents USD 13,341 thousand of short-term trade finance deals placed with Trade Finance Corporation ("TFC") through a locally incorporated bank ("Wakil" or "Bahrain Middle East Bank B.S.C.(c)") at an expected profit rate of 6.5% per annum with maturities ranging between 90 to 150 days. The Group recognised an ECL of 20% under stage 3 amounting USD 2,668 thousand during the year ended 30 June 2019 (year ended 30 June 2018: nil).

The Group suspended accruing the profit on its wakala contract receivable as the Wakil have failed to redeem the Group's wakala upon their request. The Group has a corresponding short-term borrowing from Bahrain Middle East Bank B.S.C. (c) ("BMB") under an unrestricted wakala agreement amounting USD 13,241 thousand (refer note 18.2). Currently the Group is in advanced discussions to net off the receivable from TFC and payable to BMB.

14 RECEIVABLES

	30 June 2019 USD '000	*30 June 2018 USD '000*
Receivable from investment banking services	**9,903**	26,384
Receivable on sale of investment	**591**	11,329
	10,494	37,713
Less: ECL provision	**(8,518)**	(4,293)
	1,976	33,420

Refer to note 27 for movement in impairment provision.

15 FUNDING TO PROJECT COMPANIES

	30 June 2019 USD '000	*30 June 2018 USD '000*
Gross funding	**7,781**	3,095
Less: Impairment provision	**(2,088)**	(70)
	5,693	3,025

15 FUNDING TO PROJECT COMPANIES (continued)

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.

16 OTHER ASSETS

	30 June 2019 USD '000	30 June 2018 USD '000
Advances to acquire investments	24,492	21,773
Project costs recoverable	2,217	1,864
Dividend receivable	-	904
Other receivables	3,047	3,309
Less: Impairment provision	(3,078)	(4,055)
	26,678	23,795

17 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 2018	10,098	1,814	4,811	496	17,219
Additions during the year	-	-	6	-	6
At 30 June 2019	10,098	1,814	4,817	496	17,225
Depreciation					
At 1 July 2018	2,366	1,806	4,752	479	9,403
Charge for the year	279	8	44	11	342
At 30 June 2019	2,645	1,814	4,796	490	9,745
Net book value at 30 June 2019	7,453	-	21	6	7,480
Net book value at 30 June 2018	7,732	8	59	17	7,816

18 ISLAMIC FINANCING PAYABLES

		30 June 2019 USD '000	30 June 2018 USD '000
Short-term Islamic financing payables:			
Wakala payable to non-bank	18.1	70,687	70,687
Wakala payable to financial institution	18.2	39,005	38,468
		109,692	109,155

18 ISLAMIC FINANCING PAYABLES (continued)

18.1 This represents a medium-term wakala financing raised in January 2017 at an annual profit rate of 6%. During the year, this facility became short-term financing payable with a bullet repayment in January 2020.

18.2 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 ranging between 4.25% to 2.75% (2018: 2.75%). Wakala payable to financial institution includes USD 13,241 thousand payable to BMB, under which the Group is undergoing a legal case to net off the payable amount against the wakala contract receivable (refer to note 13).

19 OTHER LIABILITIES

	30 June 2019 USD '000	30 June 2018 USD '000
Accounts payable	9,563	12,797
Provisions and accruals	1,567	1,332
Deferred income	1,274	1,224
Other	741	103
	13,145	15,456

20 SHARE CAPITAL

	30 June 2019 USD '000	30 June 2018 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 (2018: 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 2019 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.

21 INCOME FROM INVESTMENT BANKING SERVICES - NET

	30 June 2019 USD '000	30 June 2018 USD '000
Investment banking and structuring income	1,947	1,000
Investment management and arrangement fees	206	218
	2,153	1,218

22 GAIN ON SALE OF INVESTMENT

	30 June 2019 USD '000	30 June 2018 USD '000
Gain on sale of available-for-sale investments - net	**1,133**	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
	1,133	6,338

23 FINANCE INCOME

	30 June 2019 USD '000	30 June 2018 USD '000
Finance income		
Income from placements with financial institutions	**284**	133
Income from funding to project companies	**3,788**	4,652
	4,072	4,785
Finance expense		
Cost of Islamic financing payables	**(5,369)**	(5,623)
Net finance expense	**(1,297)**	(838)

24 RENTAL AND OTHER INCOME

	30 June 2019 USD '000	30 June 2018 USD '000
Rental and property management income	**357**	544
Other income	**1,429**	1,903
	1,786	2,447

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

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

	30 June 2019 USD '000	30 June 2018 USD '000
Trading securities - quoted	**546**	(631)
Investments designated at fair value through profit or loss - net	**(35,615)**	(3,202)
	(35,069)	(3,833)

26 STAFF COSTS

	30 June 2019 USD '000	30 June 2018 USD '000
Salaries and benefits	**5,938**	5,385
Social insurance expenses	**370**	348
Employee severance cost	**749**	-
Other staff expenses	**4**	12
	7,061	5,745

27 PROVISIONS FOR CREDIT LOSSES - NET

30 June 2019	*Investments (Note 10) USD '000*	*Investments in associates and JV (Note 11) USD '000*	*ECL on financial assets carried at amortised cost (Note 3.4) USD '000*	*Total USD '000*
Provision at the beginning of the year	(20,703)	(574)	(13,209)	**(34,486)**
Impairment provisions charged	(1,312)	(3,959)	(10,692)	**(15,963)**
Provision at the end of the year	**(22,015)**	**(4,533)**	**(23,901)**	**(50,449)**

	Specific impairment provisions relating to						
30 June 2018	*Investments USD '000*	*Investments in associates and JV USD '000*	*Receivables (Note 14) USD '000*	*Funding to project companies (Note 15) USD '000*	*Other assets (Note 16) USD '000*	*Collective impairment provision* (Note 16) 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
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 16).

28 OTHER EXPENSES

	30 June 2019 USD '000	*30 June 2018 USD '000*
Rent and office expenses	**1,594**	1,626
Publicity, conferences and promotion	**122**	96
Board of directors and Shari'a supervisory board fees and expenses	**495**	461
Exchange loss (gain)	**186**	(52)
Project management costs	**1,232**	853
Other	**16**	42
	3,645	3,026

29 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.

29 RELATED PARTY TRANSACTIONS (continued)

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

30 June 2019	*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	-	-	167	**167**
Investments	20,880	-	6,251	**27,131**
Investments in associates and joint venture accounted under the equity method	22,701	-	-	**22,701**
Murabaha financing to investee companies	29,424	-	-	**29,424**
Other assets	5,415	-	860	**6,275**
Liabilities				
Employee accruals	-	580	-	**580**
Other liabilities	-	-	498	**498**
Income				
Share of loss of associates and joint venture accounted for using the equity method	(59)	-	-	**(59)**
Other income	-	-	773	**773**
Expenses (excluding compensation for key management personnel)				
Impairment allowances against receivables	300	-	-	**300**
Commitments and contingencies	26,314	-	-	**26,314**

29 RELATED PARTY TRANSACTIONS (continued)

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
Placements with financial institutions	-	-		-
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

29 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 2019		*30 June 2018*	
	Number of Shares	***Number of Directors***	*Number of Shares*	*Number of Directors*
Less than 1%	**6,166,532**	**5**	5,952,312	7
1% up to less than 5%	**6,803,131**	**2**	16,654,724	4
5% and less than 10%	**25,179,616**	**2**	25,179,616	2
	38,149,279	**9**	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 2019 are 8 directors.

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

Compensation of directors and key management personnel are as follows:

	30 June 2019 USD '000	*30 June 2018 USD '000*
Board of directors' attendance fees	**306**	277
Salaries and other short-term benefits	**3,787**	1,715
	4,093	1,992

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 was proposed for the years 2019 and 2018.

30 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 during the year ended 30 June 2019 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 2019 is US cents nil for every share held (2018: 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.

31 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 (2018: nil).

32 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.

33 MATURITY PROFILE

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

30 June 2019	*Up to 3 months USD '000*	*3 to 6 months USD '000*	*6 months to 1 year USD '000*	*Total up to 1 year USD '000*	*1 to 3 years USD '000*	*Over 3 years USD '000*	*No fixed maturity USD '000*	*Total USD '000*
Assets								
Balances and placements with banks	10,175	-	-	10,175	-	-	-	**10,175**
Investments	994	1,084	720	2,798	11,962	-	96,222	**110,982**
Investments in associates and joint venture accounted under the equity method	-	-	-	-	-	-	22,701	**22,701**
Murabaha financing to investee companies	-	30,406	-	30,406	-	-	-	**30,406**
Wakala contract receivable	10,672	-	-	10,672	-	-	-	**10,672**
Receivables	-	708	-	708	1,268	-	-	**1,976**
Funding to project companies	-	1,327	2,183	3,510	2,183	-	-	**5,693**
Other assets	12,936	2,359	398	15,693	92	295	10,598	**26,678**
Property and equipment	-	-	-	-	-	-	7,480	**7,480**
Total assets	**34,777**	**35,884**	**3,301**	**73,962**	**15,505**	**295**	**137,001**	**226,763**
Liabilities								
Islamic financing payables	39,005	-	70,687	109,692	-	-	-	**109,692**
Employee accruals	-	-	-	-	168	-	1,272	**1,440**
Other liabilities	7,995	2,591	853	11,439	488	1,184	34	**13,145**
Total liabilities	**47,000**	**2,591**	**71,540**	**121,131**	**656**	**1,184**	**1,306**	**124,277**
Net liquidity gap	**(12,223)**	**33,293**	**(68,239)**	**(47,169)**	**14,849**	**(889)**	**135,695**	**102,486**
Cumulative liquidity gap	**(12,223)**	**21,070**	**(47,169)**	**(47,169)**	**(32,320)**	**(33,209)**	**102,486**	**102,486**
Commitments and contingencies	**-**	**160**	**275**	**434**	**29,005**	**-**	**10,000**	**39,440**

33 MATURITY PROFILE (continued)

30 June 2018	*Up to 3 months USD '000*	*3 to 6 months USD '000*	*6 months to 1 year USD '000*	*Total up to 1 year USD '000*	*1 to 3 years USD '000*	*Over 3 years USD '000*	*No fixed maturity USD '000*	*Total USD '000*
Assets								
Balances and placements with banks	7,326	-	-	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 30 JUNE 2019

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

a) Industry sector

30 June 2019	*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	-	10,175	-	-	-	-	-	-	**10,175**
Investments	7,891	8,814	38,809	-	2,572	1,688	-	51,208	**110,982**
Investment in associates and joint venture accounted under the equity method	-	-	21,304	-	-	-	-	1,397	**22,701**
Murabaha financing to investee companies	-	-	982	-	-	-	29,424	-	**30,406**
Wakala contract receivable	-	10,672	-	-	-	-	-	-	**10,672**
Receivables	-	-	159	-	-	-	-	1,817	**1,976**
Funding to project companies	-	659	4,211	-	-	-	-	823	**5,693**
Other assets	5,414	29	793	-	-	3	-	20,439	**26,678**
Property and equipment	-	-	7,099	-	-	-	-	381	**7,480**
Total assets	**13,305**	**30,349**	**73,357**	**-**	**2,572**	**1,691**	**29,424**	**76,065**	**226,763**
Liabilities									
Islamic financing payable	-	38,215	-	-	-	-	-	71,477	**109,692**
Employee accruals	-	-	-	-	-	-	-	1,440	**1,440**
Other liabilities	-	-	-	-	-	-	-	13,145	**13,145**
Total liabilities	**-**	**38,215**	**-**	**-**	**-**	**-**	**-**	**86,062**	**124,277**
Commitments and contingencies (note 36)	**25,138**	**10,000**	**318**	**-**	**975**	**-**	**-**	**3,009**	**39,440**
Equity of investment account holders	-	**1,563**	-	-	-	-	-	**324**	**1,887**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 30 JUNE 2019

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

a) Industry sector (continued)

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 36)	25,138	10,000	371	-	975	-	-	3,009	39,493
Equity of investment account holders	-	1,563	-	-	-	-	-	543	2,106

Corporate Overview
Business Review
Financial Statements

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

(b) Geographic region

The following table shows the assets and liabilities of the Group, classified into geographical regions based on the domicile of the entity or underlying assets exposures for the year ended:

30 June 2019	*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	10,175	-	-	-	-	10,175
Investments	64,466	36,119	7,970	2,427	-	110,982
Investment in associates and joint venture accounted under the equity method	21,550	1,151	-	-	-	22,701
Murabaha financing to investee companies	-	-	982	-	29,424	30,406
Wakala contract receivable	10,672	-	-	-	-	10,672
Receivables	533	1,285	-	158	-	1,976
Funding to project companies	5,693	-	-	-	-	5,693
Other assets	2,636	23,676	343	23	-	26,678
Property and equipment	7,480	-	-	-	-	7,480
Total assets	123,205	62,231	9,295	2,608	29,424	226,763
Liabilities						
Islamic financing payable	109,692	-	-	-	-	109,692
Employee accruals	1,440	-	-	-	-	1,440
Other liabilities	13,145	-	-	-	-	13,145
Total liabilities	124,277	-	-	-	-	124,277
Commitments and contingencies	14,303	25,137	-	-	-	39,440
Equity of investment account holders	1,887	-	-	-	-	1,887

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

(b) Geographic region (continued)

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

35 FIDUCIARY ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group acting as the custodian of the assets and or making decisions on behalf of such entities in a fiduciary capacity. Assets that are held in such capacity are not included in these consolidated financial statements.

36 COMMITMENTS AND CONTINGENCIES

The Group has issued financial guarantees totaling USD 29.01 million (30 June 2018: USD 29.01 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 2018: USD nil) and commitments to invest of USD 10.43 million (30 June 2018: USD 10.49 million).

37 RISK MANAGEMENT AND CAPITAL ADEQUACY

The Group has an internal risk management function to oversee risk management and ensure the maintenance of an adequate capital base in line with best practice and in compliance with the regulations of the Central Bank of Bahrain. The Risk Committee of the Board has the overall responsibility for this function, which is managed by the Management's Executive Committee through the Risk Management Department.

The Risk Management Department independently identifies and evaluates risks in respect of each investment proposal, and periodically monitors and measures risks at investment and statement of financial position level. The 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 2019. 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 2019 (30 June 2018: 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.

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

a) Credit risk (continued)

Maximum exposure to credit risk (continued)

Past due

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

Impaired financial assets

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

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

	30 June 2019 USD '000	*30 June 2018 USD '000*
Wakala contract receivable	**13,341**	-
Receivables	**7,240**	7,530
Funding to project companies	**801**	694
Other assets	**3,122**	2,844
Total	**24,504**	11,068

b) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group seeks to manage its concentration risk by establishing geographic and industry wise concentration limits. The geographical and industry wise distribution of assets and liabilities are set out in note 33.

At 30 June 2019, the total credit exposure to individual counterparties which comprised 10% or more of the Group's equity was USD 112.2 million relating to four counterparties (30 June 2018: USD 119.5 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.

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

c) Liquidity risk (continued)

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

	Gross undiscounted cash flows					
30 June 2019	***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	38,551	-	70,687	6,646	-	**115,884**
Employee accruals	1,272	-	-	168	-	**1,440**
Other liabilities	8,029	2,591	853	488	1,184	**13,145**
Total financial liabilities	**47,852**	**2,591**	**71,540**	**7,302**	**1,184**	**130,469**
Commitments and contingencies	**10,000**	**160**	**275**	**29,005**	**-**	**39,440**
Equity of investment account holders	**66**	**-**	**-**	**1,821**	**-**	**1,887**

	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

d) Market risk

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income or the value of its holdings of financial instruments. Market risk comprises four types of risk: currency risk, profit rate risk, equity price risk and other price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

d) Market risk (continued)

(i) Profit rate risk

Profit rate risk arises due to different timing of re-pricing of the Group's assets and liabilities. The Group's significant financial assets and liabilities sensitive to profit rate are placements with financial institutions, financing receivables and financing payables. The Group's exposure to profit rate risk is limited due to the relatively short-term nature of these assets. Average profit rates on financial instruments were:

	30 June 2019	*30 June 2018*
Placements with financial institutions	**2.00%**	2.00%
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 2019 USD '000	*30 June 2018 USD '000*
100 bps parallel increase / (decrease)		
Placements with financial institutions	**± 29**	± 20
Funding to project companies	**± 57**	± 30
Islamic financing payables	**± 1,097**	± 1,092

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 2019 USD '000	*30 June 2018 USD '000*
Kuwaiti Dinars	**4,268**	3,817
Great Britain Pounds	**3**	1,494

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

d) Market risk (continued)

(ii) Currency risk (continued)

The table below indicates the currencies to which the Group had significant exposure at 30 June 2019 and 30 June 2018 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 2019		30 June 2018	
	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%	**427**	-	382	-
Great Britain Pounds	+10%	**0**	-	149	-
Kuwaiti Dinars	-10%	**(427)**	-	(382)	-
Great Britain Pounds	-10%	**(0)**	-	(149)	-

(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 4 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 2019		30 June 2018	
		Effect on profit USD '000	**Effect on equity USD '000**	Effect on profit USD '000	Effect on equity USD '000
Trading securities	+1%	**41**	-	40	-
Available-for-sale	+1%	-	-	-	-
Trading securities	-1%	**(41)**	-	(40)	-
Available-for-sale	-1%	-	-	-	-

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

e) Operational risk

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

f) 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 2019 USD '000	30 June 2018 USD '000
Total risk weighted assets	**948,406**	861,098
CET1 capital	**102,487**	165,457
Additional Tier 1	-	-
Tier 2 capital	**2,940**	1,362
Total regulatory capital	**105,427**	166,819
Total regulatory capital expressed as a percentage of total risk weighted assets	**11.12%**	19.37%
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, except for a total CAR of 11.12% as of 30 June 2019, which is in breach of the minimum requirement of 12.5% as prescribed under CA-2.2.1 of Volume 2 of the CBB rule book.

38 FAIR VALUE

Fair value hierarchy
The table below analyses the financial instruments carried at fair value, by valuation technique. The different levels have been defined as follows:

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2** – Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- **Level 3** – Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

This hierarchy requires the use of observable market data when available. There have been no transfers between the levels of valuation during the year.

30 June 2019	***Level 1 USD 000***	***Level 2 USD 000***	***Level 3 USD 000***	***Total USD 000***
Held for trading	**4,090**	**-**	**-**	**4,090**
Fair value through profit or loss	**-**	**-**	**71,073**	**71,073**
	4,090	**-**	**71,073**	**75,163**

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
	3,951	-	95,746	99,697

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 2019 USD 000	*30 June 2018 USD 000*
At 1 July	**95,746**	101,032
Fair value losses recognised in the consolidated statement of income - net	**(35,615)**	(3,202)
(Sale of) / additional investments during the year - net	**10,942**	(2,084)
At 30 June	**71,073**	95,746

38 FAIR VALUE (continued)

Determining fair value under Level 3 includes use of valuation techniques such as the discounted cash flow model. The future cash flows have been estimated by the management, based on information and discussion with representatives of the management of the investee companies, and based on the latest available audited and un-audited financial statements. Cash flows have been projected for an initial period of between two to five years and then a terminal value has been estimated using a combination of value based on forward multiples and 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 5.9% to 18.4%. 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 1,589 thousand, whereas a 1% decrease in the discount rate would increase the fair values by approximately USD 1,712 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 25 thousand or reduce the fair values by approximately USD 25 thousand respectively.

Investments amounting to USD 35,819 thousand (30 June 2018: USD 51,819 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

CONTENT

FINANCIAL STATEMENTS

ADDITIONAL PUBLIC DISCLOSURES

30 JUNE 2019

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 reviewed condensed consolidated financial statements for the half year ended 30 June 2019.

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 2019, the Bank's total risk weighted assets amounted to US$ 948.4 million; Common Equity, Tier 1 Capital and total regulatory capital amounted to US$ 102.5 million, US$ 102.5 million and US$ 105.4 million respectively. Accordingly, Common Equity Ratio, Tier 1 Capital Adequacy Ratio and total Capital Adequacy Ratio was 10.81%, 10.81% and 11.12% respectively, which is in breach of the minimum requirement of 12.5% as prescribed under CA-2.2.1 of Volume 2 of the CBB rule book.

2 Capital Structure

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

2.2 <u>Group structure:</u>
The Bank has the following operational subsidiaries, together ("the Group") which are fully consolidated in its consolidated financial statements.

Subsidiary	*Country*	*Capital*	*Percentage interest*
Gulf Projects Company W.L.L	Kingdom of Bahrain	BHD 1,000,000	100%
The Lounge Serviced Offices Co. W.L.L	Kingdom of Bahrain	BHD 20,000	100%
GMCB Co. W.L.L*	Kingdom of Bahrain	BHD 20,000	50.59%
Venture Foods S.P.C*	Kingdom of Bahrain	BHD 1,000	80.00%

These equity investments are not consolidated on a line-by-line basis, rather designated as held for sale investments in accordance to FAS 23 with a carrying value of USD 13,031 thousand as at 30 June 2019.

2 Capital Structure (continued)

2.3 Review of financial performance:

The Bank's performance in the past two to three years has been negatively impacted by significant impairment provisions and fair value losses totalling US$ 51 million in June 2019, US$ 5.3 million in June 2018 and US$ 43.4 million in June 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 economic 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 yielding deals and costs reductions to enable the Bank to return to profitability.

	June 2019	June 2018	June 2017	June 2016	June 2015	June 2014
Net profit (US$ m)	(58.18)	(5.25)	(53.65)	9.28	14.06	14.59
ROC (return on paid up capital)	-30.6%	-2.8%	-28.2%	4.9%	7.8%	8.1%
Head count	39	45	51	50	49	45
Total investments / total assets	59%	61%	67%	65%	76%	70%
Leverage (total liabilities / total equity)	121.3%	76.6%	65.8%	49.0%	14.4%	15%
Retained earnings / paid up capital	-49%	-16%	-13%	15%	19%	17%

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.

ADDITIONAL
PUBLIC DISCLOSURES (continued)
30 JUNE 2019

2 Capital Structure (continued)

Capital Adequacy

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

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

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

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

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

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

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

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

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

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

c. Tier 2 Capital, which consists of the qualifying portion of subordinated loans (nil in VCB's case) and general loss provisions. Under the CBB regulations, the aggregate amount of Tier 2 capital eligible for inclusion in the CAR is limited to no more than 100% of Tier 1 Capital.

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

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

2.11 During the year ended 30 June 2019, 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 2019

CAPITAL COMPONENTS - CONSOLIDATED			*USD '000*
	CET 1	***AT1***	***T2***
Tier 1 Capital			
Common Equity Tier 1 (CET1)			
Issued and fully paid ordinary shares	190,000		
Legal / statutory reserves	5,859		
Accumulated losses	(35,121)		
Current interim cumulative net income / losses	(58,181)		
All other reserves	(71)		
Total CET1 capital before minority interest	**102,486**		
Total Common Equity Tier 1 capital	**102,486**		
Other Capital (AT1 & T 2)			
Expected Credit Losses (ECL) Stages 1 & 2		-	2,941
Total Available AT1 & T2 Capital		**-**	**2,941**
Net Available Capital	**102,486**	**-**	**2,941**
Total Tier 1		**102,486**	
Total Available Capital			**105,427**

Reconciliation with audited consolidated financial statements:	
Shareholder's equity per consolidated financial statements	**102,486**
Add: Expected Credit Losses (ECL) Stages 1 & 2	2,941
Total available capital for regulatory purposes	**105,427**

ADDITIONAL
PUBLIC DISCLOSURES (continued)
30 JUNE 2019

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	10,200	4,451	534
Other Corporates Including Category 3 Investment Firms - (net of CRM)	75,715	54,365	6,524
Equity Investments			
Investments in listed equities in banking book	4,090	4,090	491
Investments in unlisted equities in banking book	19,862	29,793	3,575
Significant investment in the common shares of financial entities >10%	7,714	19,284	2,314
Significant investment in the common shares of Commercial Entities above 15%, 60%	21,566	172,528	20,703
Other exposures with excess of large exposure limits (Module CM)	48,985	391,877	47,025
Premises occupied by the bank	7,099	7,099	852
Holding of Real Estate - Others	40,913	81,825	9,819
Investment in unlisted real estate companies	27,580	110,319	13,238
Other exposures	27,783	27,783	3,334
Total credit risk exposure under standardized approach	**291,506**	**903,416**	**108,410**
Market risk:			
Trading equities position	4,090	8,181	982
Foreign exchange position	18,124	18,124	2,175
Total market risk under standardized approach	**22,214**	**26,304**	**3,157**
Operational risk under Basic Indicator Approach (ref. below)		**18,686**	**2,242**
Total		**948,406**	**113,809**
Total eligible capital - (Tier 1 + Tier 2)		**105,427**	
Total eligible capital - Tier 1		**102,486**	
Common Equity Tier 1		**102,486**	
Total Capital Adequacy Ratio (Tier 1 + Tier 2)		**11.12%**	
Tier 1 Capital Adequacy Ratio		**10.81%**	
Common Equity Tier 1 Ratio		**10.81%**	

Capital requirement for Operational Risk
(Basic Indicator Approach)

			USD '000
	2018	***2017***	***2016***
Gross income for prior three years	4,895	(31,583)	15,037
Average of past 3 years gross income (excl. loss years)	9,966		
Capital requirement for Operational Risk (15%)	1,495		
Risk weighted exposure for Operational Risk	**18,686**		

Total losses on investments:	***Period ended 31 Dec 2019***	***Period ended 31 Dec 2018***
	USD '000	*USD '000*
Unrealised fair value losses recognised in the statement of income	(35,069)	(3,833)

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-19*	*31-Dec-18*	*30-Sep-18*	*30-Jun-18*	*31-Mar-18*	*31-Dec-17*	*30-Sep-17*	*30-Jun-17*	*31-Mar-17*	*Maximum*	*Minimum*
Market risk exposures											
Listed equities held for trading	4,090	4,382	4,145	3,951	4,649	4,907	5,311	4,582	4,813	5,311	3,951
Foreign currency exposure*	18,124	18,209	19,108	16,238	16,144	15,949	16,589	16,025	17,076	19,108	15,949
Market risk charge											
Listed equities held for trading	654	698	663	632	744	785	850	733	770	850	632
Foreign currency exposure	1,450	1,457	1,529	1,299	1,292	1,276	1,327	1,282	1,366	1,529	1,276
Total market risk charge	2,104	2,155	2,192	1,931	2,035	2,061	2,177	2,015	2,136	2,192	1,931
Market risk weighted exposure											
Listed equities held for trading	8,181	8,724	8,289	7,901	9,299	9,813	10,622	9,164	9,625	10,622	7,901
Foreign currency exposure	18,124	18,209	19,108	16,238	16,144	15,949	16,589	16,025	17,076	19,108	15,949
Total market risk weighted exposure	**26,305**	**26,933**	**27,397**	**24,139**	**25,443**	**25,762**	**27,211**	**25,189**	**26,701**	**27,397**	**24,139**

Table 4 – Details of credit risk weight on Islamic financing contracts at 30 June 2019, which is representative of the average exposure during the year:

USD '000

Asset Categories for Credit Risk	*Credit Exposure*	*Credit Risk Weighted Assets*
Commodity murabaha to projects	30,844	32,264
Profit free funding to projects	7,556	7,556
Total Islamic Financing Contracts	**38,400**	**39,820**

ADDITIONAL
PUBLIC DISCLOSURES (continued)
30 JUNE 2019

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. All such exposures are however reviewed periodically for recoverability in line with FAS 30 and are subject to provisioning where necessary having regard to the nature of the exposure and the assessment of collection.

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 2019 bank balances totalling US$ 2,891 thousand were rated as "ECAI 4 (BB+ to B-)" based on ratings issued by Moody's - resulting in a risk weight of 100%. In the absence of an external rating – e.g. in the case of an investee company, a detailed credit risk assessment of the obligor is performed by the investment team and independently reviewed by the Risk Management Department. The Bank does not have any credit exposure to "highly leveraged institutions".

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

ADDITIONAL
PUBLIC DISCLOSURES (continued)
30 JUNE 2019

3 Risk Management (continued)

Securitisation

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

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

Off-Balance Sheet Items

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

a. Contingent exposure of US$ 29.01 million (30 June 2018: US$ 29.01 million) associated with the issuance of guarantees for investment related funding made by financial institutions to the Bank's investment projects. Since these may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements;

b. Commitments to finance and invest of US$ 10.43 million (30 June 2018: US$ 10.49 million; and

c. Restricted investment accounts of US$ 1.89 million (30 June 2018: US$ 2.11 million) (refer to statement of changes in off-balance equity of investment account holders to the financial statements).

Concentration Risk

3.12 Concentration of risks arises when a number of obligors, counterparties or investees are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Accordingly, such concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or region.

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

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 2019*

Distribution of Bank's exposures by geographic sector

USD '000

Geographic sector	*GCC countries*	*Other MENA countries*	*Europe*	*Cayman / Americas*	*Global*	*Total*
Assets						
Balances and placements with banks	10,175	-	-	-	-	10,175
Investments	64,466	36,119	7,970	2,427	-	110,982
Investment in associates and joint venture accounted under the equity method	21,550	1,151	-	-	-	22,701
Murabaha financing to investee companies	-	-	982	-	29,424	30,406
Wakala contract receivable	10,672	-	-	-	-	10,672
Receivables	533	1,285	-	158	-	1,976
Funding to project companies	5,693	-	-	-	-	5,693
Other assets	2,636	23,676	343	23	-	26,678
Property and equipment	7,480	-	-	-	-	7,480
Total assets	**112,533**	**62,231**	**9,295**	**2,608**	**29,424**	**226,763**
Off statement of financial position items						
Equity of investment account holders	1,887	-	-	-	-	1,887
Commitments and contingencies	14,303	25,137	-	-	-	39,440
	128,723	**87,368**	**9,295**	**2,608**	**29,424**	**268,090**

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

3 Risk Management (continued)

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

b. *Table 6: Distribution of the Bank's exposures by Industry Sector as at 30 June 2019*

Distribution of Bank's exposures by industry sector

USD'000

Industry sector	*Trading & manufacturing*	*Banks & financial Inst.*	*Real estate related*	*Oil and Gas*	*Health Care*	*Technology*	*Shipping*	*Others*	*Total*
Assets									
Balances and placements with banks	-	10,175	-	-	-	-	-	-	10,175
Investments	7,891	8,814	38,809	-	2,572	1,688	-	51,208	110,982
Investment in associates and joint ventures accounted under the equity method	-	-	21,304	-	-	-	-	1,397	22,701
Murabaha financing to an investee companies	-	-	982	-	-	-	29,424	-	30,406
Wakala contract receivable	-	10,672	-	-	-	-	-	-	10,672
Receivables	-	-	159	-	-	-	-	1,817	1,976
Funding to project companies	-	659	4,211	-	-	-	-	823	5,693
Other assets	5,414	29	793	-	-	3	-	20,439	26,678
Property and equipment	-	-	7,099	-	-	-	-	381	7,480
Total Assets	**13,305**	**30,349**	**73,357**	**-**	**2,572**	**1,691**	**29,424**	**76,065**	**226,763**
Off statement of financial position items									
Equity of investment account holders	-	1,563	-	-	-	-	-	324	1,887
Commitments and contingencies	25,138	10,000	318	-	975	-	-	3,009	39,440
	38,443	**41,912**	**73,675**	**-**	**3,547**	**1,691**	**29,424**	**79,398**	**268,090**

3 Risk Management (continued)

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

c. *Table 7: Exposures by maturity as at 30 June 2019*

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	10,175	-	-	10,175	-	-	-	10,175
Investments	994	1,084	720	2,798	11,962	-	96,222	110,982
Investment in associates and joint ventures	-	-	-	-	-	-	22,701	22,701
Murabaha financing to an investee companies	-	30,406	-	30,406	-	-	-	30,406
Wakala contract receivable	10,672	-	-	10,672	-	-	-	10,672
Receivables	-	708	-	708	1,268	-	-	1,976
Funding to project companies	-	1,327	2,183	3,510	2,183	-	-	5,693
Other assets	12,936	2,359	398	15,693	92	295	10,598	26,678
Property and equipment	-	-	-	-	-	-	7,480	7,480
Total assets	**34,777**	**35,884**	**3,301**	**73,962**	**15,505**	**295**	**137,001**	**226,763**
Off statement of financial position items								
Equity of investment account holders	64	-	-	64	1,821	-	2	1,887
Commitments and contingencies	-	160	275	435	29,005	-	10,000	39,440
	34,841	**36,044**	**3,576**	**74,461**	**46,331**	**295**	**147,003**	**268,090**

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

ADDITIONAL
PUBLIC DISCLOSURES (continued)
30 JUNE 2019

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 2019

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	-	-	167	167
Investments	20,880	-	6,251	27,131
Investments in associates and joint venture	22,701	-	-	22,701
Murabaha financing to investee companies	29,424	-	-	29,424
Other assets	5,415	-	860	6,275
Liabilities				
Employee accruals	-	580	-	580
Other liabilities	-	-	498	498
Income				
Share of loss of associates and joint venture accounted for using the equity method	(59)	-	-	(59)
Other income	-	-	773	773
Expenses (excluding compensation for key management personnel)				
Impairment allowances against receivables	300	-	-	300
Commitments and contingencies	26,314	-	-	26,314

3 Risk Management (continued)

Market Risk Management

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

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

b. Foreign exchange and commodities risk throughout the Bank.

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

Operational Risk Management

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

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

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

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

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

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

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

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

ADDITIONAL
PUBLIC DISCLOSURES (continued)
30 JUNE 2019

3 Risk Management (continued)

Legal Risks

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

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

Shariah compliance

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

Equity Risk in the Banking Book (Investment Risk)

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

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

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

3 Risk Management (continued)

Unrealized Fair Value Gains (losses)

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

Table 9: Unrealized Fair Value (Loss) / Gain — *USD '000*

Particulars	*12 months ended June 2019*	*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 Jun 2013*
Private Equity investments - fair value (losses) / gains	(35,615)	(3,202)	(37,810)	(17,049)	2,000	(2,250)	(7,300)
Real Estate investments - fair value (losses) / gain	-	-	-	-	-	-	-
Listed equity investments - fair value (losses) / gains	546	(631)	(456)	(459)	(327)	17	(15)
Total unrealized fair value (loss) / gain	**(35,069)**	**(3,833)**	**(38,266)**	**(17,508)**	**1,673**	**(2,233)**	**(7,315)**

Liquidity Risk Management

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

3.30 The Bank has obtained an Islamic financing payables comprising short term bank borrowings of US$ 39 million and a medium term loan of US$ 70.69 million as at 30 June 2019. The Bank has also extended certain guarantees and commitments in support of its investment projects as disclosed in the notes to the consolidated financial statements.

3.31 Although this gives rise to a level of liquidity funding risk, management carefully monitors liquidity through regular forecasts prepared by the Bank's Treasury & Cash Management in consultation with the business and finance functions of the Bank, including considerations of stress scenarios. Additionally, during 2016, a Funding Plan was developed and put in place as part of process improvements for the management of liquidity funding risk. The Bank has a portfolio of quoted equity securities in addition to holdings in its yielding Liquidity Programs which are available to meet any unexpected shortfalls in funding requirements.

3 Risk Management (continued)

3.32 The Bank's liquidity ratio (cash and cash equivalents plus marketable securities to total liabilities) as at 30 June 2019 is as follow:

Table 10: Liquidity Ratio as at 30 June 2019

	USD '000
Cash at bank	7,312
Placements at bank	2,863
Marketable trading securities	4,090
Short term liquidity certificates	1,804
Total liquid assets	**16,069**
Total liabilities	**124,277**
Of which, due in up to 1 year	121,131
Non current, due after 1 year or more	3,146
Liquid assets / total liabilities	**13%**
Liquid assets / current liabilities (due within 1 year)	**13%**

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 liabilities, 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

USD'000

Position at 30 June 2017 Repricing period	***Rate sensitive assets***	***Rate sensitive liabilities***	***Gap***	***Cumulative Gap***	***Impact of 200 bp change***
> 1 day to 3 months	17,198	39,005	(21,807)	(21,807)	(436)
> 3 months to 6 months	4,865	-	4,865	(16,942)	97
> 6 months to 12 months	35,550	70,687	(35,137)	(52,079)	(703)
> 1 year to 5 years	1,433	-	1,433	(50,646)	29
Total	59,046	109,692			
As % of total balance sheet	26%	48%			

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 repricing period of 1 day to 3 months would potentially decrease by US$ 436 thousand if the profit margin rate increases by 200 basis points.

b. Net profit margin income for the repricing periods of 3 months to 6 months would potentially increase by US$ 97 thousand if the profit margin rate increases by 200 basis points.

c. Net profit margin income for the repricing periods of 6 months to 12 months would potentially decrease by US$ 703 thousand if the profit margin rate increases by 200 basis points.

d. Net profit margin income for the repricing periods of 1 year to 5 years would potentially increase by US$ 29 thousand if the profit margin rate increases by 200 basis points.

3 Risk Management (continued)

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

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

> The GCC Pre IPO Fund, which was set up in 2006 to invest in the shares of unlisted GCC companies in the pre-IPO stage. The total size of the fund is currently approximately US$ 1.9 million. The Bank manages the fund as a Mudarib, in exchange for a fee of 20% of returns over a 10% simple return. The investments in the GCC Pre IPO Fund are exposed to the general equity market risks prevalent in the GCC countries and in the real estate sectors.

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

Table 12: Five Years Historical Return Data on Equity of Investment Account Holders *USD'000*

	12 months ended Jun 2019	***12 months ended Jun 2018***	***12 months ended Jun 2017***	***12 months ended Jun 2016***	***12 months ended Jun 2015***	***12 months ended Jun 2014***
GCC Pre IPO Fund						
Net profit/(loss)	-	(438)	(808)	4	(152)	-
Total assets	1,887	2,106	2,744	3,756	3,833	3,879
Total equity	1,887	2,106	2,744	3,756	3,833	3,879
Return on assets (ROA)	0%	-21%	-29%	0%	-4%	0%
Return on equity (ROE)	0%	-21%	-29%	0%	-4%	0%

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

4 Impairment Provisions

The Group has early adopted FAS 30, effective from 1 July 2018 which has a mandatory date of initial application of 1 January 2020. The requirements of FAS 30 represent a significant change from FAS 11 "Provisions and Reserves".

As permitted by FAS 30, the standard has been applied retrospectively and the comparative amounts have not been restated. The impact of the early adoption of FAS 30 has been recognised in accumulated losses in the consolidated statement of changes in equity. The standard eliminates the use of the existing FAS 11 incurred loss impairment model approach.

Transition

Changes in accounting policies resulting from the adoption of FAS 30 have been applied retrospectively, except comparative periods which have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of FAS 30 are recognised in accumulated losses as at 1 July 2018. Accordingly, the information presented for June 2018 does not reflect the requirements of FAS 30 and therefore is not comparable to the information presented for June 2019 under FAS 30.

Impact of adopting FAS 30

	Balance at 30 June 2018 USD '000	*Transition adjustment USD '000*	*Balance at 1 July 2018 USD '000*
Accumulated losses	**(30,330)**	**(4,791)**	**(35,121)**
Balances and placements with banks	7,326	(14)	**7,312**
Murabaha financing to investee companies	38,597	(2,325)	**36,272**
Receivables	33,420	(1,452)	**31,968**
Funding to project companies	3,025	(501)	**2,524**
Other assets	23,795	(400)	**23,395**
Other liabilities	15,456	99	**15,555**

The key changes to the Group's accounting policies resulting from its adoption of FAS 30 are summarized below:

a) Financial contracts

Financial contracts consist of balances and placements with banks, Murabaha financing to investee companies, Wakala contract receivable, receivables, funding to project companies, certain other assets and contingencies and commitments. Balances relating to these contracts are stated net of allowance for credit losses.

b) Impairment assessment (policy applicable from 1 July 2018)

Impairment of financial assets

FAS 30 replaces the 'incurred loss' model in FAS 11 with Expected Credit Loss (ECL) model. The new impairment model also applies to certain financing commitments and financial guarantee contracts but not to equity investments.

The Group applies three-stage approach to measure ECL on financial assets carried at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: twelve months ECL

For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the lifetime ECL's that represent the ECL that result from default events on a financial contract that is possible within 12 months after the reporting date (or a shorter period if the expected life of the financial instrument is less than 12 months) of the lifetime ECL associated with the probability of default events occurring within next twelve months after the reporting date is recognised.

Stage 2: lifetime ECL – not credit impaired

For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised. Lifetime ECL is the loss that results from all possible default events over the expected life of the financial contract.

Lifetime ECL (Stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Group and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

Stage 3: Lifetime ECL – credit impaired

Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

For Stage 3 financial contracts, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract. As this uses the same criteria as under FAS 11, the Group methodology for specific allowance for credit losses remains largely unchanged.

In case where there is no collaterals or guarantees which the Group can recover its exposure, the past due rules as per Group's policy or local requirements, whichever is more strict, are applied for allowance for credit losses calculation.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- probability that the borrower will enter bankruptcy or other financial reorganization; or
- the restructuring of a facility by the Group on terms that the Group would not consider otherwise.

Measurement of ECL

The Group has developed an ECL Policy and measurement approach that appropriately reflects its credit exposures keeping in mind the nature of its exposures which are primarily to its own investees.

Given that the Group is not in the business of extending loans and financing, the Group's ECL provisioning approach is based on a detailed evaluation of all its individual exposures together with a provisioning matrix reflecting the expected credit losses for non-impaired exposures using the practical expedient under FAS30.

The parameters in the loss ratios matrix are generally derived from internally developed models and other historical data and range from 0.25% for balances with banks of good standing to 15% for fundings to investees which are assessed to fall under stage 2 .

Definition of default

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as liquidating collateral; or the borrower is past due more than 90 days on any material credit obligation to the Group. In assessing whether a borrower is in default, the Group considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on other obligations of the same or closely connected counterparty to the Group.

Probability of default ("PD")

Types of PDs used for ECL computation

- 12-month PDs – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs.
- Lifetime PDs – This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for 'stage 2'.

Incorporation of forward - looking information

Incorporating forward-looking information increases the level of judgment as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category and subject to specific impairment provision). As per the policy the methodologies and assumptions involved, including any forecasts of future economic conditions, and the resultant ECL provision matrix are required to be reviewed periodically.

Loss Given Default ("LGD")

LGD is a parentage that determine the amount of loss that will arise if the borrower was to default. This is calculated by looking at the collateral and other resources available to the Group that can be used to recover the asset in case of default.

Exposure At Default ("EAD")

EAD represents estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, and expected drawdowns on committed facilities.

On-balance sheet EADs

EADs for on-balance sheet items are the amount that is outstanding at the time of default. Outstanding of an on-balance sheet exposure shall be directly taken subject to inclusion of its repayment structure.

Off-balance sheet EADs

Off-balance sheet exposures do not have fixed payout date; thus, the EAD for off-balance sheet is calculated after applying the Credit Conversion Factor (CCF) to the nominal amount of the off-balance sheet exposure. In absence of internal data, the Group uses Basel CCF's for Capital Adequacy Ratio (CAR) purposes as per the CBB regulations. These rates are 20% for exposures with maturity equal to or less than 1 year and 50% for exposures with maturity of more than 1 year.

Collective ECL computation and staging

To assess the staging of exposures and to measure a loss allowance on a collective basis, the Group groups its exposures into segments on the basis of shared credit risk characteristics, such as geography, type of customer, industry, rating, date of initial recognition, maturity and collateral value.

ADDITIONAL
PUBLIC DISCLOSURES (continued)
30 JUNE 2019

Significant increase in credit risk

When determining whether the risk of default on a financial contracts has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost and efforts. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment including forward-looking information.

The assessment is carried out for specific instrument rather than a counterparty. As each instrument may have had different credit risk at initial recognition.

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of credit losses allowances.

	30 June 2019			
	Stage 1 USD '000	***Stage 2 USD '000***	***Stage 3 USD '000***	***Total USD '000***
Exposures subject to ECL				
Balances and placement with banks	10,200	-	-	10,200
Murabaha financing to investee companies	-	1,420	36,410	37,830
Wakala contract receivable	-	-	13,341	13,341
Receivables	591	163	9,740	10,494
Funding to project companies	-	7,711	70	7,781
Other assets*	-	3,334	2,711	6,045
	10,791	**12,628**	**62,272**	**85,691**
Guarantees and commitments	39,440	-	-	39,440
	50,231	**12,628**	**62,272**	**125,131**

	1 July 2018			
	Stage 1 USD '000	*Stage 2 USD '000*	*Stage 3 USD '000*	*Total USD '000*
Exposures subject to ECL				
Balances and placement with banks	7,326	-	-	7,326
Murabaha financing to investee companies	37,199	1,398	-	38,597
Receivables	25,780	7,640	4,293	37,713
Funding to project companies	-	3,025	70	3,095
Other assets*	3,614	3,042	3,200	9,856
	73,919	15,105	7,563	96,587
Guarantees and commitments	39,493	-	-	39,493
	113,412	15,105	7,563	136,080

*Other assets subject to ECL excludes advances to invest.

An analysis of the changes in ECL allowances, is as follows:

	Stage 1: 12-month ECL USD '000	*Stage 2: Lifetime ECL not credit-impaired USD '000*	*Stage 3: Lifetime ECL credit-impaired USD '000*	*Total USD '000*
Balance at 1 July on adoption of FAS 30				
Balances and placement with banks	(18)	-	-	(18)
Murabaha financing to investee companies	(2,790)	(210)	-	(3,000)
Wakala contract receivable	-	-	-	-
Receivables	(1,289)	(584)	(4,293)	(6,166)
Funding to project companies	-	(647)	(70)	(717)
Other assets	(181)	(335)	(2,693)	(3,209)
Guarantees and commitments	(99)	-	-	(99)
	(4,377)	**(1,776)**	**(7,056)**	**(13,209)**
Reversal / (charge) during the period				
Balances and placement with banks	(7)	-	-	(7)
Murabaha financing to investee companies	2,790	(74)	(7,140)	(4,424)
Wakala contract receivable	-	-	(2,669)	(2,669)
Receivables	1,231	512	(4,095)	(2,352)
Funding to project companies	-	(1,371)	-	(1,371)
Other assets	181	(50)	-	131
Guarantees and commitments	-	-	-	-
	4,195	**(983)**	**(13,904)**	**(10,692)**
Balance at 30 June 2019				
Balances and placement with banks	(25)	-	-	(25)
Murabaha financing to investee companies	-	(284)	(7,140)	(7,424)
Wakala contract receivable	-	-	(2,669)	(2,669)
Receivables	(58)	(72)	(8,388)	(8,518)
Funding to project companies	-	(2,018)	(70)	(2,088)
Other assets	-	(385)	(2,693)	(3,078)
Guarantees and commitments	(99)	-	-	(99)
As at 30 June 2019	**(182)**	**(2,759)**	**(20,960)**	**(23,901)**

During the year ended 30 June 2019, an exposure amounting US$ 36,410 thousand relating to 'Murabaha financing to investee companies' and its ECL of US$ 2,790 thousand has been transferred from stage 1 to stage 3. Additionally, an exposure amounting US$ 13,341 thousand relating to 'Wakala contract receivable' and its ECL of nil has been transferred from stage 2 to stage 3.

ADDITIONAL
PUBLIC DISCLOSURES (continued)
30 JUNE 2019

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 2019. The following tables give details of distribution of shares by nationality, ownership of shares by directors etc.

5.1 Table 15: Distribution of shareholders by nationality:

Country	*Ownership %*
United Arab Emirates	3.29%
Kuwait	23.66%
Kingdom of Saudi Arabia	57.71%
Qatar	4.78%
Oman	2.57%
Kingdom of Bahrain	7.99%
Total	**100.0%**

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

Ownership %	*Number of shareholders*
Less than 1%	149
1% - 2%	15
2% - 3%	6
3% - 4%	2
4% - 5%	0
More than 5%	2
Total	**174**

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

- The Commercial Real Estate Co. (K.S.C.C.) – 7.23% ownership; and
- Securities Group (K.S.C.C.) – 6.02% ownership.

5.3 Ownership of shares by government:
The Bahrain Development Bank B.S.C. (c), a public sector organization owned by the Government of Bahrain has a 1.19% interest in the share capital of the Bank.

5.4 Ownership of shares by Board members:
Four members of the Board have shareholdings ranging from 0.39% to 1.19% 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 9 members, the majority of whom are independent non-executive Directors.

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