VENTURE CAPITAL BANK B.S.C. (c) ("the Bank")

Additional Public Disclosures
31 December 2013

1 Introduction

The Central Bank of Bahrain’s (CBB) Basel II guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2008. These disclosures have been prepared in accordance with the CBB requirements outlined in the Public Disclosure Module (“PD”), Chapter 1.3 of the CBB Rule Book, Volume II for Islamic Banks. These disclosures follow the requirements of Basel II - Pillar 3 and the Islamic Financial Services Board’s (IFSB) recommended disclosures for Islamic banks, and should be read in conjunction with the disclosures made in the Bank’s reviewed financial statements for the half year ended 31 December 2013.

Pillar 3 disclosure requirements are designed to promote market discipline and disclosure by providing information on a firm's risk exposures and risk management processes. The Bank makes these disclosures on a comprehensive basis comprising qualitative and quantitative information annually and on a restricted basis at the half year reporting stage.

The Bank has adopted the Standardised Approach for Credit Risk and Market Risk and follows the Basic Indicator Approach for Operational Risk to determine its capital requirements.

As at 31 December 2013, the Bank’s total risk weighted assets amounted to US$ 742 million; Tier 1 Capital and total regulatory capital amounted to US$ 321 million and US$ 330 million respectively. Accordingly, Tier 1 and Total Capital Adequacy Ratio was 43% and 44% respectively, which exceeds the minimum capital requirements of the CBB of 12%.

2 Capital Structure

2.1 Capital Base

The authorized share capital of the Bank is US$ 500 million, comprising 500 million common shares of US$ 1 each. The Bank’s initial paid up capital was US$ 66 million, which was increased to US$ 150 million in 2007 through a rights issue and a private placement to new strategic investors. In addition, a further 15 million shares were authorized for allocation to the Bank's Employee Share Ownership Plan

The Bank undertook a further capital increase in 2009 which increased its paid up capital to US$ 250 million par value during 2010, comprising 250 million shares of US$ 1 each, including 24.85 million shares allotted to the Bank’s ESOP. During 2013, the Bank revised its capital structure to write off accumulated losses against share premium and available reserves and reduction of issued share capital by 20.8% plus reduction of ESOP shares allocation by approximately 56% to US$ 10 million as detailed in the below table. The changes have been approved by the shareholders in an extraordinary general meeting held on 9 December 2013, and also by the regulators.

Particulars (with ref. to 30 Jun 2013 audited financial statements)	***Previous (US$ mil)***	***Revised (US$ mil)***	***% change***
Shareholders' capital	227.24	180.00	**-20.8%**
ESOP treasury shares (ESOP)	22.76	10.00	**-56.1%**
Total	250.00	190.00	
Share premium & reserves	44.44	2.27	
Retained earnings (deficit)	(71.20)	18.21	
Total equity (excl. treasury shares)	200.48	200.48	
Book value per share (excl. ESOP treasury shares) - US$	0.88	1.11	

2 Capital Structure (continued)

2.2 Group structure:

The Bank has the following operational subsidiaries which are fully consolidated in its consolidated financial statements.

Subsidiary	*Country*	*Capital*	*Percentage interest*
Gulf Projects Company W.L.L	Kingdom of Bahrain	BHD 1,000,000	100%
The Lounge Serviced Offices Co. W.L.L	Kingdom of Bahrain	BHD 20,000	100%
Lime Restaurant Management & Catering Services Co. W.L.L	Kingdom of Bahrain	BHD 20,000	100%
Mena SME Fund Manager Limited	Cayman Islands	USD 2	100%

2.3 Review of financial performance:

Particulars	*(Half year) December 2013*	*June 2013*	*December 2012*	*December 2011*	*December 2010*	*December 2009*	*December 2008*
Net profit (US$ m)	4.29	21.15	18.51	(58.67)	(47.60)	10.88	46.92
ROC (return on paid up capital)	4.8%	5.5%	7.2%	-22.9%	-18.6%	6.3%	28.7%
Head count	46	45	42	66	76	73	79
Total investments to total assets	67%	75%	76%	76%	71%	64%	58%
Leverage (total liabilities / total equity)	20%	11%	6%	10%	4%	25%	8%
Retained earnings to paid up capital	14%	-22%	-23%	-30%	-7%	20%	22%

2 Capital Structure (continued)

2.4 Capital Adequacy:

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

Table 1: Regulatory Eligible Capital as at 31 December 2013

Details of Eligible Capital Base	USD '000	USD '000
	Tier 1	***Tier 2***
Issued and fully paid ordinary shares	190,000	
Less: Employee stock incentive program funded by the bank (outstanding)	(10,000)	
Disclosed reserves	2,023	
General reserves	-	
Legal / statutory reserves	2,023	
Retained profit brought forward	8,862	
Unrealized gains arising from fair valuing equities (45% only)	4,207	
Minority interest in consolidated subsidiaries	126,299	
Tier 1 Capital before PCD deductions	**321,391**	
Current interim profits (reviewed by external auditors)		4,294
Unrealized gains arising from fair valuing equities (45% only)		453
Collective impairment loss provision		3,999
Tier 2 Capital before PCD deductions		**8,746**
Total Available Capital		**330,137**
Total Deductions	**-**	**-**
	i	**ii**
Net Available Capital	**321,391**	**8,746**
Total Eligible Capital (i + ii)	**330,137**	

2 Capital Structure (continued)

2.4 Capital Adequacy (continued)

Table 2: Details of exposures and capital requirement

Details of exposures and capital requirement			USD '000
Credit risk:	*Gross exposures*	*Risk weighted exposures*	*Capital charge*
Exposures to banks	16,928	3,387	406
Exposures to corporates	42,745	42,745	5,129
Investments in listed equities in banking book	2,447	2,447	294
Investments in unlisted equities in banking book	161,584	242,376	29,085
Investments in real estate	86,155	172,311	20,677
Premises occupied by the bank	11,146	11,146	1,338
Other exposures	137,334	137,334	16,480
Total credit risk exposure under standardized approach	**458,339**	**611,746**	**73,409**
Market risk:			
Trading equities position	115	230	28
Foreign exchange position	78,887	78,887	9,466
Total market risk under standardized approach	**79,002**	**79,117**	**9,494**
Operational risk under Basic Indicator Approach (ref. below)		**51,488**	**6,179**
Total		**742,351**	**89,082**
Total eligible capital - (Tier 1 + Tier 2)		**330,137**	
Total eligible capital - Tier 1		**321,391**	
Total Capital Adequacy Ratio (Tier 1 + Tier 2)		**44.47%**	
Tier 1 Capital Adequacy Ratio		**43.29%**	

Capital requirement for Operational Risk (Basic Indicator Approach)

			USD '000
	2013	***2011***	***2010***
Gross income for prior three years	27,460	(8,968)	(445)
Average of past 3 years gross income (excl. loss years)	27,460		
Capital requirement for Operational Risk (15%)	4,119		
Risk weighted exposure for Operational Risk	**51,488**		

	USD '000
Total unrealized fair value gains / (losses):	***6 months ended Dec 2013***
Unrealized fair value (losses)/ gains recognized in income	(478)
Unrealized fair value gains/(losses) recognized in equity during the period	761
Unrealized fair value gains/(losses) recognized in equity at the end of the period	1,006
Cumulative realised gains arising from sales in the reporting period	709

2 Capital Structure (continued)

2.4 Capital Adequacy (continued)

The maximum and minimum values of each category of market risk exposure during the 6 months are detailed in the table below:

Table 3 – Details of market risk weighted exposures

Particulars	*31-Dec-13*	*30-Sep-13*	*30-Jun-13*	*31-Mar-13*	*31-Dec-12*	*30-Sep-12*	*30-Jun-12*	*31-Mar-12*	*Maximum*	*Minimum*
Market risk exposures										
Listed equities held for trading	115	100	93	95	87	81	75	116	116	75
Foreign currency exposure*	78,887	83,493	73,119	75,103	64,274	78,966	1,331	1,387	83,493	1,331
Market risk charge										
Listed equities held for trading	18	16	15	15	14	13	12	19	19	12
Foreign currency exposure	6,311	6,679	5,850	6,008	5,142	6,317	106	111	6,679	106
Total market risk charge	6,329	6,695	5,864	6,023	5,156	6,330	118	130	6,698	118
Market risk weighted exposure										
Listed equities held for trading	230	199	186	190	173	163	150	232	232	150
Foreign currency exposure	78,887	83,493	73,119	75,103	64,274	78,966	1,331	1,387	83,493	1,331
Total market risk weighted exposure	**79,117**	**83,692**	**73,305**	**75,293**	**64,447**	**79,129**	**1,481**	**1,619**	**83,692**	**1,481**

* Foreign currency exposure mainly includes exposures to Turkish Lira due to consolidation of Mena Juice Limited for regulatory purposes.

Table 4 – Details of credit risk weight on Islamic financing contracts at 31 December 2013, which is representative of the average exposure during the period:

		USD '000
Asset Categories for Credit Risk	*Credit Exposure*	*Credit Risk Weighted Assets*
Commodity murabaha to projects	6,109	6,109
Profit free funding to projects	16,360	20,627
Total Islamic Financing Contracts	**22,469**	**26,736**

3 Risk Management

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

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.

The credit risk exposures faced by the Bank are in respect of its own short term liquidity related to placements with other financial institutions, and in respect of investment related funding made to projects. The investment related funding exposures arise in the ordinary course of its investment banking activities and are generally transacted without contractual due dates, collateral or other credit risk mitigants. All such exposures are however reviewed periodically for recoverability and specific provisions made where necessary having regard to the nature of the exposure and the assessment of collection. Additionally, during the 6 month period ended 31 December 2013, due to continued negative market conditions, a collective impairment provision has also been recorded based on the recommendations of the external auditors. As at 31 December 2013, the total collective impairment provision stood at US$ 4

3.2 Concentration Risk

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 3: Distribution of the Bank's exposures by geographic sector as at 31 December 2013

Distribution of Bank's exposures by geographic sector

USD '000

Geographic sector	*GCC countries*	*Other MENA countries*	*Europe*	*Cayman / Americas*	*Global*	*Total*
Assets						
Balances with banks	2,466	-	-	-	-	2,466
Placements with financial institutions	2,798	-	-	-	-	2,798
Investments	67,001	24,088	14,212	-	25,300	130,601
Investment in associates and joint ventures	23,442	1,380	-	-	-	24,822
Receivable from investment banking services	7,113	699	10,801	2,768	-	21,381
Funding to project companies	4,497	11,509	225	-	2,238	18,469
Property and equipment	9,528	-	-	-	-	9,528
Investment property	9,130	-	-	-	-	9,130
Other assets	17,425	351	4,807	117	5,238	27,938
Total Assets	**143,400**	**38,027**	**30,045**	**2,885**	**32,776**	**247,133**
Off statement of financial position items						
Equity of investment account holders	3,865	-	-	-	-	3,865
Commitments and contingencies	25,689	12,098	-	-	480	38,267
	172,953	**50,125**	**30,045**	**2,885**	**33,256**	**289,265**

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

3 Risk Management (continued)

b. Table 4: Distribution of the Bank's exposures by Industry Sector as at 31 December 2013

Distribution of Bank's exposures by industry sector

USD'000

Industry sector	*Trading & manuracturing*	*Banks & financial Inst.*	*Real estate related*	*Oil and Gas*	*Health Care*	*Technology*	*Shipping*	*Others*	*Total*
Assets									
Balances with banks	-	2,466	-	-	-	-	-	-	2,466
Placements with financial institutions	-	2,798	-	-	-	-	-	-	2,798
Investments	34,620	22,048	31,996	3,439	10,160	-	11,329	17,009	130,601
Investment in associates and joint ventures	-	1,636	20,893	-	913	-	-	1,380	24,822
Receivable from investment banking services	699	2,538	7,132	-	136	-	1,815	9,061	21,381
Funding to project companies	11,509	16	908	-	3,798	2,238	-	-	18,469
Property and equipment	-	-	8,570	-	-	-	-	958	9,528
Investment property	-	-	9,130	-	-	-	-	-	9,130
Other assets	345	14	4,021	-	2,802	21	5,626	15,109	27,938
Total Assets	**47,173**	**31,516**	**82,650**	**3,439**	**17,809**	**2,259**	**18,770**	**43,517**	**247,133**
Off statement of financial position items									
Equity of investment account holders	-	3,097	-	-	-	-	-	768	3,865
Commitments and contingencies	12,098	10,000	15,689	-	-	480	-	-	38,267
	59,271	**44,613**	**98,339**	**3,439**	**17,809**	**2,739**	**18,770**	**44,285**	**289,265**

3 Risk Management (continued)

c. Table 5: Exposures by maturity as at 31 December 2013

Distribution of Bank's exposures by maturity USD '000

Maturity-wise exposures	***No fixed maturity***	***Up to 3 months***	***3 to 6 months***	***6 months to 1 year***	***Total up to 1 year***	***1 to 3 years***	***Over 3 years***	***Total***
Assets								
Balances with banks	2,466	-	-	-	-	-	-	2,466
Placements with financial institutions	-	2,531	267	-	2,798	-	-	2,798
Investments	105	-	-	2,500	2,500	41,539	86,457	130,601
Investment in associates and joint ventures	-	-	-	-	-	-	24,822	24,822
Receivable from investment banking services	-	460	9,273	-	9,733	7,599	4,049	21,381
Funding to project companies	-	-	5,626	6,124	11,750	3,798	2,921	18,469
Property and equipment	9,528	-	-	-	-	-	-	9,528
Investment property	9,130	-	-	-	-	-	-	9,130
Other assets	-	9,691	17,232	353	27,276	203	459	27,938
Total assets	**21,229**	**12,682**	**32,398**	**8,977**	**54,057**	**53,139**	**118,708**	**247,133**
Off statement of financial position items								
Equity of investment account holders	3,865	-	-	-	-	-	-	3,865
Commitments and contingencies	35,312	2,955	-	-	2,955	-	-	38,267
	60,406	**15,637**	**32,398**	**8,977**	**57,012**	**53,139**	**118,708**	**289,265**

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

4 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:

RELATED PARTY TRANSACTIONS

31 December 2013	***USD '000***
Assets	
Investments	46,623
Receivable from investment banking services	4,140
Funding to project companies	10,734
Other assets	151
Liabilities	
Employee accruals	1,543
Income	
Income from investment banking services	(20)

5 Impairment Provisions:

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

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

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

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

Impairment provisions - by asset class

USD '000

		Impairment booked during the period ended 31 Dec 2013		***Cumulative impairment provision as of 31 Dec 2013***		
Particulars (USD '000)	***Gross exposure***	***Specific***	***Collective***	***Specific***	***Collective***	***Net carrying value***
Investments	43,115	-	-	28,426	-	14,689
Investments in associates and joint venture	5,173	-	-	5,173	-	-
Receivable from investment						-
banking services	20,729	350	-	10,051	-	10,678
Funding to project companies	43,220	-	140	23,126	3,999	16,095
Other assets	7,576	-	-	2,034	-	5,542
Total	**119,813**	**350**	**140**	**68,810**	**3,999**	**47,004**

Impairment provisions - by industrial sector

USD '000

		Impairment booked during the period ended 31 Dec 2013		***Cumulative impairment provision as of 31 Dec 2013***		
Particulars (USD '000)	***Gross exposure***	***Specific***	***Collective***	***Specific***	***Collective***	***Net carrying value***
Real estate	57,937	-	140	41,519	3,999	12,419
Health care	5,098	-	-	1,300		3,798
Technology	15,350	-	-	13,112		2,238
Oil and gas	18	-	-	18		-
Transportation	7,736	-	-	1,125		6,611
Others	33,674	350	-	11,736		21,938
Total	**119,813**	**350**	**140**	**68,810**	**3,999**	**47,004**

6 Unrealized Fair Value Gains (losses):

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

Particulars (USD '000)	*6 months ended Dec 2013*	*18 months ended Jun 2013*	*12 months ended Dec 2012*	*12 months ended Dec 2011*	*12 months ended Dec 2010*	*12 months ended Dec 2009*	*12 months ended Dec 2008*
Private Equity investments - fair value (losses) / gains	(500)	(7,300)	(2,000)	(1,711)	-	3,830	3,300
Real Estate investments - fair value (losses) / gain	-	-	-	(13,572)	(15,100)	(750)	6,500
Listed equity investment - fair value (losses) / gains	22	(15)	(20)	(131)	(58)	360	3,774
Total unrealized fair value (loss) / gain	**(478)**	**(7,315)**	**(2,020)**	**(15,414)**	**(15,158)**	**3,440**	**13,574**

7 Exposures to highly leveraged counterparties:

The Bank does not currently have any borrowings other than an insignificant amount of bank financing and routine accounts payables for operating costs. Accordingly, it does not have any significant liquidity risk exposure from borrowings. However, the Bank has extended certain guarantees and undertaken commitments in support of its investment projects as disclosed in Note 5 to the consolidated financial statements.

8 Liquidity ratio:

	31-Dec-13
Liquid assets / total liabilities	**25%**
Liquid assets / current liabilities (due within 1 year)	**55%**

9 Profit Margin Rate Risk Management in the Banking Book:

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. This however, is not a major source of risk for the Bank.

The table below depicts a profit margin sensitivity analysis in the Bank's banking book.

	USD'000				
Position at 31 Dec 2013 Repricing period	***Rate sensitive assets***	***Rate sensitive liabilities***	***Gap***	***Cumulative Gap***	***Impact of 200 bp change***
1 day	-	-	-	-	-
> 1 day to 3 months	2,531	18,510	(15,979)	(15,979)	(80)
> 3 months to 6 months	267	-	267	(15,712)	3
> 6 months to 12 months	4,304	-	4,304	(11,408)	86
> 1 year to 5 years	-	10,179	(10,179)	(21,586)	(1,018)
> 5 years	-	-	-	(21,586)	-

10 Indicators of exposures to rate of return risk

Rate of return is not a major source of risk for the Bank due to the nature of its activities as an investment bank and the lack of significant exposure to rate of return sensitive assets, liabilities or off balance sheet items.

On the assets side, the Bank is exposed to rate of return risk on its placements and other profit. earning advances, currently are of short term maturities from 1 to 3 months at profit rates of between 0.3 % to 4.5 % pa. The Bank does not currently earn any profits on funding provided to project companies. On the liabilties side, the Bank is exposed to rate of return risk on its Islamic financing payables which include a medium term borrowing of US$ 10 m and approximately US$ 18 m of short term facilities at market rates.

Subsequent to 31 Dec 2013, the Bank repaid US$ 6.4 m of short term facilities using cash received from recoveries of funding receivables.

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

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

i. The GCC Pre IPO Fund, which was set up in 2006 to invest in the shares of unlisted GCC companies in the pre-IPO stage. The total size of the fund is relatively small with funds under investment of approximately US$ 3.7 million. The Bank manages the fund as Mudarib, in exchange for a fee of 20% of returns over a 10% simple return. The investments in the GCC Pre IPO Fund are exposed to the general equity market risks prevalent in the GCC countries and in the real estate and petrochemical sectors.

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

ii. The Bank's Investment Projects Mudarabah was set up in 2009 to provide liquidity financing to a selected investment project which comprised an investment of US$ 12 million on which it was expected to earn a return of 7% less the Bank's share of profit as Mudarib of 7% thereof payable on maturity. During 2011, the Bank settled in full the principal and profit payable on the Investment Projects Mudarabah, which was exposed to risks prevalent in the real estate sector in Bahrain.

iii. Historical returns on Equity of Investment Account Holders:

5 years historical return data on equity of investment account holders	*6 months ended Dec 2013*	*18 months ended Jun 2013*	*12 months ended Dec 2012*	*12 months ended Dec 2011*	*12 months ended Dec 2010*	*12 months ended Dec 2009*
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
GCC Pre IPO Fund						
Net profit/(loss)	-	34	-	71	(1,406)	129
Total assets	3,865	3,740	3,678	3,681	3,878	4,471
Total equity	3,865	3,740	3,678	3,681	3,878	4,471
Return on assets (ROA)	0%	1%	0%	2%	-36%	3%
Return on equity (ROE)	0%	1%	0%	2%	-36%	3%
VC Bank Investment Projects Mudarabah						
Net Profit	N/A	N/A	N/A	886	887	331
Total assets	N/A	N/A	N/A	14,105	13,219	12,331
Total equity	N/A	N/A	N/A	13,165	12,341	12,308
Return on assets (ROA)	N/A	N/A	N/A	6%	7%	3%
Return on equity (ROE)	N/A	N/A	N/A	7%	7%	3%

12 Corporate Governance and transparency

12.1: Distribution of shareholders by nationality:

Country	*Ownership %*
United Arab Emirate	3.3%
Kuwait	21.6%
Kingdom of Saudi Arabia	51.8%
Qatar	4.3%
Oman	2.3%
Kingdom of Bahrain	16.7%
Total	**100.0%**

12.2: Distribution of shareholders by size of shareholding:

Ownership %	*Number of shareholders*
Less than 1%	154
1% - 2%	15
2% - 3%	5
3% - 4%	2
4% - 5%	0
More than 5%	2
Total	**178**

12 Corporate Governance and transparency (continued)

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.) – 6.51% ownership; and
- Securities Group (K.S.C.C.) – 5.43% ownership.

12.3: Ownership of shares by government:

The Bahrain Development Bank B.S.C. (c), a public sector organization owned by the Government of Bahrain has a 1.07% interest in the share capital of the Bank.

12.4: Ownership of shares by Board members:

Seven members of the Board have shareholdings ranging from 0.13% to 0.98% of total capital. No Board members have shareholding exceeding 1% of total capital, although a number of Board members represent corporate shareholders with shares ranging from 0.43% to 5.43%.

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 all stakeholders and maintaining high standards of transparency and accountability. The Board comprises 12 members, all of whom are independent non-executive Directors except for the CEO.