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

Additional Public Disclosures
31 December 2015

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 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 consolidated financial statements for the six month ended 31 December 2015.

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.

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.

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 2015, the Bank’s total risk weighted assets amounted to US$ 1,233 million; Common Equity, Tier 1 Capital and total regulatory capital amounted to US$ 205 million, US$ 205 million and US$ 207 million respectively. Accordingly, Common Equity Ratio, Tier 1 Capital Adequacy Ratio and Total Capital Adequacy Ratio was 16.6%, 16.6% and 16.8% respectively, which exceeds the minimum capital requirement of the CBB of 12.5%.

2 Capital Structure

2.1 Capital Base

The authorized share capital of the Bank is US$ 500 million, comprising 500 million common shares of US$ 1 each. The Bank’s paid up capital currently stands at US$ 190 million following a bonus share issue of US$ 10 million and cancellation of Employee Share Ownership Plan shares during 2015 as disclosed in Note 7 to the interim reviewed financials for 31 December 2015. Information on the geographical distribution and concentration of shareholdings is provided further below in Section 12 on Corporate Governance.

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 2015***	***June 2015***	***(Half year) December 2014***	***June 2014***	***(Half year) December 2013***	***June 2013***	***December 2012***
Net profit (US$ m)	(4.03)	14.06	(4.27)	14.59	4.29	21.15	18.51
Head count	49	49	46	45	46	45	42
ROC (return on paid up capital)	-2%	8%	-2%	8%	5%	6%	7%
Total investments to total assets	84%	76%	76%	70%	67%	75%	76%
Leverage (total liabilities / total equity)	25%	14%	17%	15%	20%	11%	6%
Retained earnings to paid up capital	9%	19%	10%	17%	14%	-22%	-23%

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 2015

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	4,931		
Retained profit brought forward	13,863		
Current interim cumulative net income / (losses)	(4,025)		
Accumulated other comprehensive income / (losses) and other reserves	(189)		
Total Common Equity Tier 1 capital	**204,580**		
Other Capital (AT1 & T 2)			
General financing loss provisions		-	2,669
Total Available AT1 & T2 Capital		**-**	**2,669**
Net Available Capital	**204,580**	**-**	**2,669**
Total Tier 1		**204,580**	
Total Available Capital			**207,249**

Reconciliation with audited financial statements:		
Shareholder's equity per audited financial statements		**210,929**
Less:	Fair value gains	(6,349)
Add:	General provisions	2,669
Total available capital for regulatory purposes		**207,249**

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	8,354	1,672	201
Exposures to corporates	27,600	27,600	3,312
Investments in listed equities in banking book	6,599	6,599	792
Investments in unlisted equities in banking book	200,507	916,361	109,963
Investments in real estate	80,135	160,270	19,232
Premises occupied by the bank	8,189	8,189	983
Other exposures	38,949	38,949	4,674
Total credit risk exposure under standardized approach	**370,333**	**1,159,640**	**139,157**
Market risk:			
Trading equities position	5,160	10,320	1,238
Foreign exchange position	12,197	12,197	1,464
Total market risk under standardized approach	**17,357**	**22,517**	**2,702**
Operational risk under Basic Indicator Approach (ref. below)		**50,752**	**6,090**
Total		**1,232,910**	**147,949**
Total eligible capital - (Tier 1 + Tier 2)		**207,249**	
Total eligible capital - Tier 1		**204,580**	
Common Equity Tier 1		**204,580**	
Total Capital Adequacy Ratio (Tier 1 + Tier 2)		**16.81%**	
Tier 1 Capital Adequacy Ratio		**16.59%**	
Common Equity Tier 1 Ratio		**16.59%**	

Capital requirement for Operational Risk (Basic Indicator Approach)	***2015***	***2014***	***2013***
Gross income for prior three years	28,072	28,511	24,621
Average of past 3 years gross income (excl. loss years)	27,068		
Capital requirement for Operational Risk (15%)	4,060		
Risk weighted exposure for Operational Risk	**50,752**		

(* annualized)

	USD '000
Total unrealized fair value gains / (losses):	***6 mths Dec 2015***
Unrealized fair value (losses)/ gains recognized in income	(5,337)
Unrealized fair value gains/(losses) recognized in equity during the year	-24

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-15*	*30-Jun-15*	*31-Dec-14*	*30-Jun-14*	*31-Dec-13*	*30-Jun-13*	*31-Dec-12*	*30-Jun-12*	*Maximum*	*Minimum*
Market risk exposures										
Listed equities held for trading	5,160	2,816	1,104	897	115	93	87	75	5,160	75
Foreign currency exposure*	12,197	73,851	72,894	76,013	78,887	73,119	64,274	1,331	78,887	1,331
Market risk charge										
Listed equities held for trading	826	451	177	143	18	15	14	12	826	12
Foreign currency exposure	976	5,908	5,832	6,081	6,311	5,850	5,142	106	6,311	106
Total market risk charge	1,801	6,359	6,008	6,225	6,329	5,864	5,156	118	7,137	118
Market risk weighted exposure										
Listed equities held for trading	10,320	5,633	2,207	1,793	230	186	173	150	10,320	150
Foreign currency exposure	12,197	73,851	72,894	76,013	78,887	73,119	64,274	1,331	78,887	1,331
Total market risk weighted exposure	**22,517**	**79,484**	**75,101**	**77,806**	**79,117**	**73,304**	**64,449**	**1,481**	**79,484**	**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 2015, 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	-	-
Profit free funding to projects	11,424	17,588
Total Islamic Financing Contracts	**11,424**	**17,588**

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. Additional cushion is provided by collective impairment provision which stood at US$ 2.669 million as at 31 December 2015.

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 5: Distribution of the Bank's exposures by geographic sector as at 31 December 2015

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	9,977	-	-	-	-	9,977
Placements with financial institutions	126	-	-	-	-	126
Investments	97,306	39,304	30,568	-	26,763	193,941
Investment in associates and joint ventures	26,464	1,107	-	-	-	27,571
Receivables	1,939	-	2,410	2,400	-	6,749
Funding to project companies	8,224	185	-	-	346	8,755
Property and equipment	8,632	-	-	-	-	8,632
Other assets	2,492	101	456	1,839	3,483	8,371
Total Assets	**155,160**	**40,697**	**33,434**	**4,239**	**30,592**	**264,122**
Off statement of financial position items						
Equity of investment account holders	3,774	-	-	-	-	3,774
Commitments and contingencies	17,305	15,204	-	-	34,000	66,509
	176,239	**55,901**	**33,434**	**4,239**	**64,592**	**334,405**

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

3 Risk Management (continued)

b. Table 6: Distribution of the Bank's exposures by Industry Sector as at 31 December 2015

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 with banks	-	9,977	-	-	-	-	-	-	9,977
Placements with financial institutions	-	126	-	-	-	-	-	-	126
Investments	51,573	15,644	44,940	2,965	14,080	-	11,529	53,210	193,941
Investment in associates and joint ventures	-	1,344	24,719	-	401	-	-	1,107	27,571
Receivables	-	80	3,934	-	116	-	1,685	934	6,749
Funding to project companies	-	-	4,363	185	3,861	346	-	-	8,755
Property and equipment	-	-	7,997	-	-	-	-	635	8,632
Other assets	59	40	1,937	-	8	233	3,637	2,457	8,371
Total Assets	**51,632**	**27,211**	**87,890**	**3,150**	**18,466**	**579**	**16,851**	**58,343**	**264,122**
Off statement of financial position items									
Equity of investment account holders	-	3,099	-	-	-	-	-	675	3,774
Commitments and contingencies	15,204	10,000	7,040	-	265	-	34,000	-	66,509
	66,836	**40,310**	**94,930**	**3,150**	**18,731**	**579**	**50,851**	**59,018**	**334,405**

3 Risk Management (continued)

c. Table 7: Exposures by maturity as at 31 December 2015

Distribution of Bank's exposures by maturity USD '000

Maturity-wise exposures	***No fixed maturity***	***Up to 3 months***	***3 to 6 months***	***6 mths to 1 year***	***Total up to 1 year***	***1 to 3 years***	***Over 3 years***	***Total***
Assets								
Balances with banks	9,977	-	-	-	-	-	-	9,977
Placements with financial institutions	-	126	-	-	126	-	-	126
Investments	6,607	1,400	203	5,770	7,373	62,349	117,612	193,941
Investment in associates and joint ventures	-	-	-	-	-	-	27,571	27,571
Receivables	-	470	-	-	470	4,594	1,685	6,749
Funding to project companies	-	5,300	-	1,053	6,353	2,056	346	8,755
Property and equipment	8,632	-	-	-	-	-	-	8,632
Other assets	-	523	6,117	1,157	7,797	417	157	8,371
Total assets	**25,216**	**7,819**	**6,320**	**7,980**	**22,119**	**69,416**	**147,371**	**264,122**
Off statement of financial position items								
Equity of investment account holders	3,774	-	-	-	-	-	-	3,774
Commitments and contingencies	-	-	-	-	-	66,509	-	66,509
	28,990	**7,819**	**6,320**	**7,980**	**22,119**	**135,925**	**147,371**	**334,405**
Liabilities								
Islamic financing payable	-	35,218	-	-	35,218	-	-	35,218
Employee accruals	-	-	2,885	-	2,885	-	2,873	5,758
Other liabilities	-	9,205	904	-	10,109	957	1,152	12,218
Total liabilities	**-**	**44,423**	**3,789**	**-**	**48,212**	**957**	**4,025**	**53,194**

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 2015	***USD '000***
Assets	
Investments	45,993
Investments in associates and joint ventures	27,571
Receivable from investment banking services	1,156
Funding to project companies	5,939
Other assets	62
Liabilities	
Employee accruals	2,292
Other liabilities	365
Income	
Share of profit/ (loss) of associates and joint venture accounted for using the equity method	(269)
Expenses	
Post-employment benefits	732
Impairment allowances against receivables	48
Commitments and contingencies	30,000

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 income statement 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 recovery of the principal or/and the profit is in doubt, highly questionable or the amount is considered uncollectible due to the impaired paying capacity of the customer (or counterparty) or by insufficiency of pledged collateral if any.

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

Impairment provisions - by asset class

		Impairment booked during the period ended 31 Dec 2015		***Cumulative impairment provision as of 31 Dec 2015***		USD '000
Particulars (USD '000)	***Gross exposure***	***Specific***	***Collective***	***Specific***	***Collective***	***Net carrying value***
Investments	40,692	500	-	21,404	-	19,288
Investments in associates and joint venture	5,173	-	-	5,173	-	-
Receivable from investment banking services	7,746	-	-	4,917	-	2,829
Funding to project companies	28,334	250	-	14,393	2,669	11,272
Other assets	1,935	-	-	1,662	-	273
Total	**83,880**	**750**	**-**	**47,549**	**2,669**	**33,662**

Impairment provisions - by industrial sector

		Impairment booked during the period ended 31 Dec 2015		***Cumulative impairment provision as of 31 Dec 2015***		USD '000
Particulars (USD '000)	***Gross exposure***	***Specific***	***Collective***	***Specific***	***Collective***	***Net carrying value***
Real estate	51,732	500	-	28,731	2,669	20,332
Health care	5,161	-	-	1,300	-	3,861
Technology	15,458	250	-	15,112	-	346
Oil and gas	18	-	-	18	-	-
Transportation	9,774	-	-	1,255	-	8,519
Others	1,737	-	-	1,133	-	604
Total	**83,880**	**750**	**-**	**47,549**	**2,669**	**33,662**

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 year, and the gains / (losses) recognized in the income statement 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 2015*	*6 months ended Dec 2014*	*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*
Private Equity investments - fair value (losses) / gains	(5,000)	-	(500)	(7,300)	(2,000)	(1,711)	-	3,830
Real Estate investments - fair value (losses) / gain	-	-	-	-	-	(13,572)	(15,100)	(750)
Listed equity investment - fair value (losses) / gains	(337)	(44)	22	(15)	(20)	(131)	(58)	360
Total unrealized fair value (loss) / gain	**(5,337)**	**(44)**	**(478)**	**(7,315)**	**(2,020)**	**(15,414)**	**(15,158)**	**3,440**

7 Exposures to highly leveraged counterparties:

The Bank does not currently have any borrowings other than US$ 30 million of bank financing. Accordingly, it does not have any significant liquidity risk exposure from borrowings. 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 which are not expected to result in any losses or liquidity stress on the Bank.

8 Liquidity ratio:

	31-Dec-15
Cash at bank	9,977
Placements at bank	126
Marketable trading securities	5,160
Marketable AFS securities	1,448
Short term liquidity certificates	1,400
Total liquid assets	**18,111**
Total liabilities	**53,194**
Of which, due in up to 1 year	48,212
Non current, due after 1 year or more	4,982
Liquid assets / total liabilities	**34%**
Liquid assets / current liabilities (due within 1 year)	**38%**

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 factors that affect profit margin rates are principally market and economic factors including inflation and growth rates. Profit margin rate risk however, is not a major source of risk for the Bank due to the absence of significant rate sensitive assets and liabilites, as indicated below. Nevertheless, the Bank monitors its exposure to rate sensitive assets and liabilities proactively and in this regard has implemented a Liquidity Management Policy to manage this.

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

	USD' 000				
Position at 31 Dec 2015 Repricing period	***Rate sensitive assets***	***Rate sensitive liabilities***	***Gap***	***Cumulative Gap***	***Impact of 200 bp change***
1 day	-	-	-	-	-
> 1 day to 3 months	1,526	35,218	(33,692)	(33,692)	(168)
> 3 months to 6 months	-	-	-	(33,692)	-
> 6 months to 12 months	-	-	-	(33,692)	-
> 1 year to 5 years	-	-	-	(33,692)	-
> 5 years	-	-	-	(33,692)	-

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, which currently are of short term maturities from 3 to 6 months at profit rates of between 0.75 % to 2.5 % 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 comprise short term bank borrowings of US$ 35 m at market rates.

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 2015*	*6 months ended Dec 2014*	*12 months ended Jun 2014*	*6 months ended Dec 2013*	*18 months ended Jun 2013*	*12 months ended Dec 2012*
	USD'000	**USD'000**		**USD'000**	**USD'000**	**USD'000**
GCC Pre IPO Fund						
Net profit/(loss)	19	(150)	-	-	34	-
Total assets	3,774	3,680	3,879	3,865	3,740	3,678
Total equity	3,774	3,680	3,879	3,865	3,740	3,678
Return on assets (ROA)	1%	-4%	0%	0%	1%	0%
Return on equity (ROE)	1%	-4%	0%	0%	1%	0%
VC Bank Investment Projects Mudarabah						
Net Profit	N/A	N/A	N/A	N/A	N/A	N/A
Total assets	N/A	N/A	N/A	N/A	N/A	N/A
Total equity	N/A	N/A	N/A	N/A	N/A	N/A
Return on assets (ROA)	N/A	N/A	N/A	N/A	N/A	N/A
Return on equity (ROE)	N/A	N/A	N/A	N/A	N/A	N/A

12 Corporate Governance and transparency

12.1: Distribution of shareholders by nationality:

Country	***Ownership %***
United Arab Emirate	3.3%
Kuwait	23.7%
Kingdom of Saudi Arabia	57.7%
Qatar	4.8%
Oman	2.6%
Kingdom of Bahrain	8.0%
Total	**100.0%**

12.2: Distribution of shareholders by size of shareholding:

Ownership %	***Number of shareholders***
Less than 1%	145
1% - 2%	16
2% - 3%	6
3% - 4%	2
4% - 5%	0
More than 5%	2
Total	**171**

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.) – 7.23% ownership; and
- Securities Group (K.S.C.C.) – 6.02% 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 1.19% 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 0.33% to 1.19% of total capital. In addition a number of Board members represent corporate shareholders with shares ranging from 0.07% 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 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.