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

Additional Public Disclosures
30 June 2015

1 Introductio

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 audited financial statements for the year ended 30 June 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.

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 2015, the Bank's total risk weighted assets amounted to US$ 834 million; Common Equity, Tier 1 Capital and total regulatory capital amounted to US$ 214 million, US$ 305 million and US$ 308 million respectively. Accordingly, Common Equity Ratio, Tier 1 Capital Adequacy Ratio and total Capital Adequacy Ratio was 26%, 37% and 37% respectively, which exceeds the minimum capital requirement of the CBB of 12.5%.

2 Capital Structure

2.1 Capital Base

The authorized share capital of the Bank is 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 ("ESOP").

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. The changes have been approved by the shareholders in an extraordinary general meeting held on 9 December 2013, and also by the regulators.

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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:

The Bank commenced operations in October 2005 and achieved excellent returns in its initial years. The results for 2010 and 2011 were unfortunately affected by the regional market turmoil, as a consequence of which significant impairment provisions and fair value losses were recorded resulting in significant net losses for 2010 and 2011. However, the Bank has witnessed a major turnaround during the current period, registering net profits of US$ 21.1 million for the 18 month period ended 30 June 2013, and of US$ 14.59 million and US$ 14.06 million for the years ended 30 June 2014 and 2015 respectively.

Particulars	*June 2015*	*June 2014*	*December 2013 (Half year)*	*June 2013 (18 mths)*	*December 2012*	*December 2011*	*December 2010*
Net profit (US$ m)	14.06	14.59	4.29	21.15	18.51	(58.67)	(47.60)
ROC (return on paid up capital)	7.8%	8.1%	4.8%	5.5%	7.2%	-22.9%	-18.6%
Head count	49	45	46	45	42	66	76
Total investments / total assets	76%	70%	67%	75%	76%	76%	71%
Leverage (total liabilities / total equity)	14.3%	15%	20%	11%	6%	10%	4%
Retained earnings / paid up capital	19%	17%	14%	-22%	-23%	-30%	-7%

As shown by the consolidated financial statements, income from investment banking services is the main contributor to net income. The Bank's investment team has a solid pipeline of investment deals which are expected to grow its fiduciary assets under management going forward and thereby increase the proportion of recurring income from management fees to provide an increased level of sustainable income.

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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 growing lines of business.

2.5 To manage its capital the Bank employs a risk adjusted measure of capital adequacy (i.e. Capital Adequacy Ratio or "CAR") based on the local 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 to measure its operational risk weighted exposures.

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% minimum CAR and a 12.5% trigger 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 2015, 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 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		
Less: Employee stock incentive program funded by the bank (outstanding)	(10,000)		
Legal / statutory reserves	3,525		
Retained profit brought forward	12,710		
Current interim cumulative net income / losses	14,059		
Accumulated other comprehensive income and losses (and other reserves)	(175)		
Total CET1 capital before minority interest	**210,119**		
Minority interest in consolidated financial entities given recognition in CET1	3,583		
Total Common Equity Tier 1 capital	**213,702**		
Other Capital (AT1 & T 2)			
Minority interest in consolidated financial entities given recognition in AT1		91,344	-
General financing loss provisions		-	2,558
Total Available AT1 & T2 Capital		**91,344**	**2,558**
Net Available Capital	**213,702**	**91,344**	**2,558**
Total Tier 1		**305,046**	
Total Available Capital			**307,604**

Reconciliation with audited financial statements:		
Shareholder's equity per audited financial satements		**219,467**
Less:	Fair value gains	(9,348)
Add:	General provisions	2,558
	Minority interests	94,927
Total available capital for regulatory purposes		**307,604**

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2 Capital Structure (continued)

2.13 Capital Adequacy (continued)

Table 2: Details of exposures and capital requirement

Details of exposures and capital requirement USD '000

Credit risk:	Gross exposures	Risk weighted exposures	Capital charge
Exposures to banks	14,903	2,982	358
Exposures to corporates	43,231	43,231	5,188
Investments in listed equities in banking book	4,292	4,292	515
Investments in unlisted equities in banking book	182,059	331,702	39,804
Investments in real estate	90,362	180,724	21,687
Premises occupied by the bank	8,677	8,677	1,041
Other exposures	127,891	127,891	15,347
Total credit risk exposure under standardized approach	**471,415**	**699,499**	**83,939**
Market risk:			
Trading equities position	2,816	5,633	676
Foreign exchange position	73,851	73,851	8,862
Total market risk under standardized approach	**76,667**	**79,484**	**9,538**
Operational risk under Basic Indicator Approach (ref. below)		**55,248**	**6,630**
Total		**834,231**	**100,107**
Total eligible capital - (Tier 1 + Tier 2)		**307,604**	
Total eligible capital - Tier 1		**305,046**	
Common Equity Tier 1		**213,702**	
Total Capital Adequacy Ratio (Tier 1 + Tier 2)		**36.87%**	
Tier 1 Capital Adequacy Ratio		**36.57%**	
Common Equity Tier 1 Ratio		**25.62%**	

Capital requirement for Operational Risk (Basic Indicator Approach)

	2015	*2014*	*2013**
Gross income for prior three years	30,359	30,578	27,460
Average of past 3 years gross income (excl. loss years)	29,466		
Capital requirement for Operational Risk (15%)	4,420		
Risk weighted exposure for Operational Risk	**55,248**		

* annualized

Total unrealized fair value gains / (losses):	USD '000 *Year ended 30 Jun 2015*
Unrealized fair value (losses)/ gains recognized in income	1,673
Unrealized fair value gains/(losses) recognized in equity during the year	(1,057)
Unrealized fair value gains/(losses) recognized in equity at the end of the year	-
Cumulative realised gains arising from sales during the year	1,347

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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-15*	*31-Mar-15*	*31-Dec-14*	*30-Sep-14*	*30-Jun-14*	*31-Mar-14*	*31-Dec-13*	*30-Sep-13*	*Maximum*	*Minimum*
Market risk exposures										
Listed equities held for trading	2,816	3,008	1,104	907	897	880	115	100	3,008	100
Foreign currency exposure*	73,851	77,233	72,894	79,897	76,013	65,256	78,887	83,493	83,493	65,256
Market risk charge										
Listed equities held for trading	451	481	177	145	143	141	18	16	481	16
Foreign currency exposure	5,908	6,179	5,832	6,392	6,081	5,220	6,311	6,679	6,679	5,220
Total market risk charge	6,359	6,660	6,008	6,537	6,225	5,361	6,329	6,695	7,161	5,236
Market risk weighted exposure										
Listed equities held for trading	5,633	6,017	2,207	1,813	1,793	1,761	230	199	6,017	199
Foreign currency exposure	73,851	77,233	72,894	79,897	76,013	65,256	78,887	83,493	83,493	65,256
Total market risk weighted exposure	**79,484**	**83,250**	**75,101**	**81,710**	**77,807**	**67,017**	**79,116**	**83,693**	**83,693**	**67,017**

** Foreign currency exposure mainly includes exposures to Turkish Lira due to consolidation of an investment in Turkey (Mena Juice Limited) for regulatory purposes.*

Table 4 – Details of credit risk weight on Islamic financing contracts at 30 June 2015, which is representative of the average exposure during the year:

Asset Categories for Credit Risk	*Credit Exposure*	*Credit Risk Weighted Assets* (USD '000)
Commodity murabaha to projects	2,682	2,682
Profit free funding to projects	13,736	17,139
Total Islamic Financing Contracts	**16,418**	**19,821**

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 (a department which functionally reports to the Risk Committee) is empowered to independently identify and assess risks that may arise from the Bank's investing and operating activities; as well as recommend directly to the Executive Management Committee any prevention and mitigation measures as it deems fit. In addition, the Internal Audit Department, which is independent of both operations and the Bank's investments units, also assists in the risk management process. In particular, the Internal Audit Department is charged with a periodic review of the effectiveness of the Bank's policies and internal controls, including those relating to the risk management process.

3 Risk Management (continued)

3.4 The Internal Audit Department adopts a risk-based audit approach whereby the nature, timing and extent of the audits are determined with regard to the risk relevant to each business or support unit of the Bank. A risk assessment is carried out annually to determine the major risks faced by each business or support unit and accordingly, an annual audit plan is prepared by the Internal Audit Department and approved by the Board's Audit Committee. The annual plan envisages the coverage, amongst others, of the Risk Management and Compliance Departments.

Detailed operational risk assessments and tests of effectiveness of internal controls designed to mitigate risks (covering each of the risk components as mentioned above) are carried out in accordance with the annual audit plan. A follow up audit to ascertain the status of implementation of observations previously made by internal or external audit is also part of the annual audit plan.

The key findings arising from the work performed by Internal Audit is reported to the Board Audit Committee and senior management of the Bank.

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

3.5 Credit risk is defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms.

3.6 The Bank is not involved in the granting of credit facilities in the normal course of its business activities. Further, the Bank is not engaged in retail business and therefore does not use credit "scoring" models.

3.7 The credit risk exposures faced by the Bank are principally in respect of its own short term placements with other financial institutions and in respect of investment related funding made to projects. The investment related funding exposures arise in the ordinary course of its investment banking activities and are generally transacted without contractual due dates, collateral or other credit risk mitigants. All such exposures are however reviewed periodically for recoverability and specific provisions made where necessary having regard to the nature of the exposure and the assessment of collection. Additionally, a collective impairment provision is also recorded to reflect general market risks and negative market conditions. As at 30 June 2015, the total collective impairment provision stood at US$ 2.56 million.

3.8 The Bank uses the Standardized Approach for measuring its credit risk. As it does not use an internal credit "scoring" system, the Bank depends, where available, on ratings from External Credit Assessment Institutions recognized by the CBB for its bank counterparty exposures. In the absence of such an external rating – e.g. in the case of an investee company, a detailed credit risk assessment of the obligor is performed by the investment team and independently reviewed by the Risk Management Department. The Bank does not have any credit exposure to "highly leveraged institutions".

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

3 **Risk Management (continued)**

Securitisation

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

However, the Bank has structured and arranged the "Liquidity Program" which raised a total of US$ 55 million in 2010 through the issuance of Shari'ah compliant one year liquidity certificates with early redemption options of 30 days, 90 days and 180 days with attractive yields, which has been fully subscribed by investors. These certificates are backed by an 84.61% share in the rental yield of the VC Bank Building, a prime commercial property in the Diplomatic Area of the Kingdom of Bahrain.

Off-Balance Sheet Items

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

a. Contingent exposure of US$ 36.32 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$ 10.04 million
c. Restricted investment accounts of US$ 3.83 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 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	2,314	-	-	-	-	2,314
Placement with financial institutions	410	-	-	-	-	410
Investments	83,465	62,078	3,974	-	13,528	163,045
Investment in associates and counted						
under the equity method	26,704	1,112	-	-	-	27,816
Investment property						
Receivables	15,823	8,983	855	-	1,684	27,345
Funding to project companies	4,707	8,557	-	596	-	13,860
Other assets	2,908	491	46	-	3,752	7,197
Property and equipment	8,833	-	-	-	-	8,833
Total Assets	**145,164**	**81,221**	**4,875**	**596**	**18,964**	**250,820**
Off statement of financial position items						
Equity of investment account holders	3,833	-	-	-	-	3,833
Commitments and contingencies	32,158	14,204	-	-	-	46,362
	181,155	**95,425**	**4,875**	**596**	**18,964**	**301,015**

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

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3 Risk Management (continued)

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

b. Table 6: Distribution of the Bank's exposures by Industry Sector as at 30 June 2015

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	-	2,314	-	-	-	-	-	-	2,314
Placements with financial institutions	-	410	-	-	-	-	-	-	410
Investments	29,415	16,650	27,531	10,797	14,080	1,847	13,529	49,196	163,045
Investment in associates and joint ventures	-	-	24,706	-	578	-	-	2,532	27,816
Receivables	933	-	6,775	1,679	-	396	1,685	15,877	27,345
Funding to project companies	8,373	-	845	185	3,861	596	-	-	13,860
Other assets	306	39	116	72	4	134	3,636	2,890	7,197
Property and equipment	-	-	8,131	-	-	-	-	702	8,833
Total Assets	**39,027**	**19,413**	**68,104**	**12,733**	**18,523**	**2,973**	**18,850**	**71,197**	**250,820**
Off statement of financial position items									
Equity of investment account holders	-	3,099	-	-	-	-	-	734	3,833
Commitments and contingencies	14,204	10,000	22,158	-	-	-	-	-	46,362
	53,231	**32,512**	**90,262**	**12,733**	**18,523**	**2,973**	**18,850**	**71,931**	**301,015**

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3 Risk Management (continued)

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

c. *Table 7: Exposures by maturity as at 30 June 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 months to 1 year*	*Total up to 1 year*	*1 to 3 years*	*Over 3 years*	*Total*
Assets								
Balances with banks	-	2,314	-	-	2,314	-	-	2,314
Placements with financial institutions	-	125	-	285	410	-	-	410
Investments	160,269	-	-	1,000	1,000	1,776	-	163,045
Investment in associates and joint ventures	27,816	-	-	-	-	-	-	27,816
Receivable from investment banking services	-	2,680	7,855	2,500	13,035	13,840	470	27,345
Funding to project companies	-	-	-	185	185	13,079	596	13,860
Other assets	173	69	5,397	566	6,032	982	10	7,197
Property and equipment	8,833	-	-	-	-	-	-	8,833
Total assets	**197,091**	**5,188**	**13,252**	**4,536**	**22,976**	**29,677**	**1,076**	**250,820**
Off statement of financial position items								
Equity of investment account holders	2	24	-	-	24	3,807	-	3,833
Commitments and contingencies	46,322	-	-	40	40	-	-	46,362
	243,415	**5,212**	**13,252**	**4,576**	**23,040**	**33,484**	**1,076**	**301,015**

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

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)

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 2015

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	-	-	1,295	1,295
Placements with financial institutions	-	-	410	410
Investments	-	-	43,395	43,395
Investments in associates and joint venture	27,816	-	-	27,816
Receivables	-	-	4,401	4,401
Funding to project companies	4,458	-	3,403	7,861
Other assets	25	-	259	284
Liabilities				
Employee accruals	-	1,586	-	1,586
Other liabilities	-	-	-	-
Income				
Income from investment banking services	316	-	-	316
Share of loss of associates and joint venture accounted for using the equity method	(524)	-	-	(524)
Other income	-	-	2,033	2,033
Realised gain on sale of investment property	-	-	-	-
Expenses (excluding compensation for key management personnel)				
Impairment allowances against investments	-	-	-	-
Impairment allowances against receivables	750	-	-	750
Commitments and contingencies	40	-	-	40

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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.

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

Shari'ah compliance

3.24 The Shari'ah 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 Shari'ah. The Bank also has a dedicated internal Shari'ah reviewer who performs an ongoing 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 Shari'ah 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 Shari'ah 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 ongoing 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 Finance and Investment Committee for approval.

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

Particulars	*12 months ended June 2015*	*12 months ended June 2014*	*18 months ended Jun 2013*	*12 months ended Dec 2012*	*12 months ended Dec 2011*	*12 months ended Dec 2010*	*12 months ended Dec 2009*	*12 months ended Dec 2008*
Private Equity investments - fair value (losses) / gains	2,000	(2,250)	(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	(327)	17	(15)	(20)	(131)	(58)	360	3,774
Total unrealized fair value (loss) / gain	**1,673**	**(2,233)**	**(7,315)**	**(2,020)**	**(15,414)**	**(15,158)**	**3,440**	**13,574**

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 does not currently have any borrowings other than short term bank borrowings of $ 20 m. 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 Department in consultation with the business and finance functions of the Bank, including considerations of stress scenarios. The Bank also has a portfolio of quoted equity securities which are available to meet any unexpected shortfalls in funding requirements. Accordingly, management considers that the Bank is not exposed to any significant funding liquidity risk

3 Risk Management (continued)

3.32 The Bank funds its assets primarily through internal accruals and shareholders' equity. The Bank maintained a healthy liquidity position during the year. Its liquidity ratio (cash and cash equivalents plus marketable securities to total liabilities) stood at 26% as at 30 June 2015

Table 10: Liquidity Ratio as at 30 June 2015	USD '000
Cash at bank	2,314
Placements at bank	410
Marketable trading securities	2,816
Marketable available-for-sale securities	1,472
Short term liquidity certificates	1,000
Total liquid assets	**8,012**
Total liabilities	**31,353**
Of which, due in up to 1 year	20,011
Non current, due after 1 year or more	11,342
Liquid assets / total liabilities	**26%**
Liquid assets / current liabilities (due within 1 year)	**40%**

3 Risk Management (continued)

Profit Margin Rate Risk Management in the Banking Book:

3.33 As a financial intermediary, the Bank may encounter profit margin risks that arise from timing differences in the maturity and repricing of the Bank's assets and liabilities. While such repricing mismatches are fundamental to the business of banking, these can expose a bank's income and underlying economic value to unanticipated fluctuations as profit margins vary. The factors that affect profit margin rates are principally market and economic factors including inflation and growth rates. Profit margin rate risk however, is not a major source of risk for the Bank due to the absence of significant rate sensitive assets and liabilites, as indicated below. Nevertheless, the Bank monitors its exposure to rate sensitive assets and liabilities proactively and in this regard has implemented a Liquidity Management Policy during the year 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 2015 Repricing period	***Rate sensitive assets***	***Rate sensitive liabilities***	***Gap***	***Cumulative Gap***	***Impact of 200 bp change***
1 day	-	-	-	-	-
> 1 day to 3 months	125	20,011	(19,886)	(19,886)	(99)
> 3 months to 6 months	-	-	-	(19,886)	-
> 6 months to 12 months	1,285	-	1,285	(18,601)	26
> 1 year to 5 years	2,104	-	2,104	(16,497)	210
> 5 years	-	-	-	(16,497)	-
Total	3,514	20,011			
As % of total balance sheet	1%	8%			

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

a. The Bank's net profit margin income for the repricing period of 1 day to 3 months would potentially decrease by US$ 99 thousand if the profit margin rate increases by 200 basis points.

b. The Bank's net profit margin income for the repricing periods of 6 months to 12 months would potentially increase by US$ 26 thousand if the profit margin rate increases by 200 basis points.

c. The Bank's net profit margin income for the repricing periods of 1 year to 12 years would potentially increase by US$ 210 thousand if the profit margin rate increases by 200 basis points.

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3 Risk Management (continued)

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

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

a. 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$ 3.8 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 and petrochemical sectors.

b. 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 earned a return of 7% less the Bank's share of profit as Mudarib of 7% thereof distributable to investors on maturity. During 2012, the Bank settled in full the principal and profit payable relating to the Investment Projects Mudarabah. The investment in the Investment Projects Mudarabah was exposed to the risks prevalent in the real estate sector in Bahrain.

c. 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 2015	*12 months ended Jun 2014*	*18 months ended Jun 2013*	*12 months ended Dec 2012*	*12 months ended Dec 2011*	*12 months ended Dec 2010*
GCC Pre IPO Fund						
Net profit/(loss)	(152)	-	34	-	71	(1,406)
Total assets	3,833	3,879	3,740	3,678	3,681	3,878
Total equity	3,833	3,879	3,740	3,678	3,681	3,878
Return on assets (ROA)	-4%	0%	1%	0%	2%	-36%
Return on equity (ROE)	-4%	0%	1%	0%	2%	-36%
VC Bank Investment Projects Mudarabah						
Net Profit	N/A	N/A	N/A	N/A	886	887
Total assets	N/A	N/A	N/A	N/A	14,105	13,219
Total equity	N/A	N/A	N/A	N/A	13,165	12,341
Return on assets (ROA)	N/A	N/A	N/A	N/A	6%	7%
Return on equity (ROE)	N/A	N/A	N/A	N/A	7%	7%

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).

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4 Impairment Provisions:

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

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

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

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

Table 13: Impairment provisions - by asset class **USD '000**

		Impairment booked during the year ended 30 June 2015		*Cumulative impairment provision as of 30 June 2015*		
Particulars	*Gross exposure*	*Specific*	*Collective*	*Specific*	*Collective*	*Net carrying value*
Investments	41,716	1,900	-	20,904	-	20,812
Investments in associates and joint venture	5,173	-	-	5,173	-	-
Receivable from investment banking services	23,579	470	-	8,417	-	15,162
Funding to project companies	31,358	750	550	15,125	2,558	13,675
Other assets	2,443	33	-	2,090	-	353
Total	**104,269**	**3,153**	**550**	**51,709**	**2,558**	**50,002**

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

		Impairment booked during the year ended 30 June 2015		*Cumulative impairment provision as of 30 June 2015*		
Particulars (USD '000)	*Gross exposure*	*Specific*	*Collective*	*Specific*	*Collective*	*Net carrying value*
Real estate	47,150	1,933	550	27,942	2,558	16,650
Health care	5,161	-	-	1,300	-	3,861
Technology	15,462	750	-	14,866	-	596
Oil and gas	18	-	-	18	-	-
Transportation	10,774	130	-	1,255	-	9,519
Others	25,704	340	-	6,328	-	19,376
Total	**104,269**	**3,153**	**550**	**51,709**	**2,558**	**50,002**

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 2015. 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	3.09%
Kuwait	22.18%
Kingdom of Saudi Arabia	54.47%
Qatar	4.48%
Oman	2.41%
Kingdom of Bahrain	13.37%
Total	**100.0%**

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

Ownership %	*Number of shareholders*
Less than 1%	149
1% - 2%	16
2% - 3%	5
3% - 4%	2
4% - 5%	0
More than 5%	3
Total	**175**

Three 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.) – 6.79% ownership; and
- VC Bank ESOP SPC – 6.13% ownership, but unvested.
- Securities Group (K.S.C.C.) – 5.65% 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 1.07% interest in the share capital of the Bank.

5.4 Ownership of shares by Board members:

Seven members of the Board have shareholdings ranging from 0.14% to 2.36% of total capital. In addition a number of Board members represent corporate shareholders with shares ranging from 0.45% to 5.65%.

The Board is responsible for the stewardship of the Bank's business and affairs on behalf of the shareholders, with a view to enhancing long-term shareholder value whilst taking into account the interests of other stakeholders, and maintaining high standards of transparency and accountability. The Board comprises 12 members, all of whom are independent non-executive Directors except for the CEO.