Venture Capital Bank B.S.C. (c)

SHARI'A SUPERVISORY BOARD REPORT, REPORT OF THE BOARD OF DIRECTORS, INDEPENDENT AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2014

VENTURE
CAPITAL
BANK

In the name of Allah the Merciful, the Compassionate

Report of the Shari'ah Supervisory Board for period from 01/07/2013 to 30/06/2014

Praise be to Allah, and peace be upon our Messenger, his family companions and allies.

The Shari'ah Supervisory Board of Venture Capital Bank has reviewed all the business and investments of the Bank in its meetings for the period from 01/07/2013 to 30/06/2014.

It has studied and discussed, with the Bank's management, the financial statements and the income statement for the period from 01/07/2013 to 30/06/2014.

It should be noted that it is the responsibility of the Bank's management to ensure that the Bank is working in compliance with Shari'ah principles, while the responsibility of the Shari'ah Supervisory Board is limited to give an independent opinion based on monitoring the Bank's operations and preparing the report to be submitted to you.

Through continuous reviewing and monitoring of the Bank's business, the Shari'ah Supervisory Board finds that the business, activities, investments and projects made by the Bank are compliant with the principles of Islamic Shari'ah.

The Shari'ah Supervisory Board, represented by its Chairman, has reviewed all investment brochures used by the Bank, and the funds it established. It has ratified that they are Islamic investments, publications and funds.

The Shari'ah Supervisory Board has also reviewed the financial statements, approved by the auditors for the said period, and decided that they are compliant with the principles of Islamic Shari'ah.

The Shari'ah Supervisory Board has calculated the amount of the Zakat payable on each share. The responsibility of payment of Zakat on the shares lies on the shareholders.

Accordingly, as the Shari'ah Supervisory Board issues its report to confirm the legitimacy of the business, investments, funds, and statements of Venture Capital Bank during this year, it commends the Almighty Allah for this success in the business, especially in these difficult financial conditions experienced by most countries of the world in their financial and economic sectors.

Finally, the Shari'ah Supervisory Board acknowledges the efforts of all employees of the Bank in facilitating the work of the Shari'ah Supervisory Board and appreciates their efforts, calling on Allah to help them to get more of His grace and generosity, for He is able to do so.

Peace be upon our master, Mohammad, his family and allies.

We praise to Allah the Lord of the worlds.

Abdulsattar Abu Ghodah | **Nidham Bin Mohammed Saleh Yaqoobi**
Chairman, Shariah Supervisory Board | **Issa Zaki**

Executed on Tuesday, 28/11/1435 H, corresponding to the 23/09/2014

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CHAIRMAN'S STATEMENT

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

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of Venture Capital Bank (VCBank) for the fiscal year ended 30 June 2014. I am delighted to report that with the grace of God, we continued the rebound in the Bank's financial performance. Net profits for the year grew substantially by 84 per cent over the prior twelve months despite continued volatility and uncertainties in the region in general and in the investment banking sector in particular.

Illustrating the Bank's strong financial performance for fiscal year 2014, total revenues increased by 55 per cent to USD 23.7 million compared with USD 15.3 million for the previous year, while total expenses amounted to USD 13.2 million versus USD 10.2 million for 2013. Significantly, income from investment banking activities remained very healthy at USD 16.9 million. As a result, net profit grew substantially by 84 per cent to USD 15.1 million before directors' remuneration from USD 8.1 million the previous year, equating to a return on net paid-up capital of 8.3 per cent. These results are after recognising fair value losses and impairment provisions of USD 4.60 million in 2014 (10.1 million for FY 2013), which were booked as a prudent measure in light of prevailing market conditions.

VCBank continued to maintain a strong capital base, with total balance sheet assets increasing by 13 per cent to USD 249.4 million at 30 June 2014 compared with USD 221.6 million at the end of the previous year, with the balance sheet remaining largely unleveraged. Shareholders' equity grew by 8 per cent to USD 216 million from USD 200.5 million at the end of fiscal year 2013. As at end-June 2014, the Bank's capital adequacy ratio stood at a very robust 44 per cent, considerably higher than the 12 per cent minimum requirement of the Central Bank of Bahrain; while total assets under management grew by 8 per cent to USD 1.24 billion compared with USD 1.1 billion at the end of June 2013.

These excellent results reinforce the continuous turnaround in the Bank's financial performance during the past two and a half years. They reflect the success of measures taken during this period to reduce costs, utilise our assets more effectively, and restructure the organisation to improve efficiency and maximise synergies. They also confirm the validity of our refocused strategy, which aims to generate and sustain profitability, maintain adequate liquidity, and build a solid foundation for providing acceptable returns to our shareholders.

Following the extraordinary general meeting held on 9 December 2013, and receipt of regulatory approvals from the Central Bank of Bahrain and the Ministry of Industry and Commerce, the capital structure of VCBank has been revised during the year. Accumulated losses of USD 71.2 million have been cleared against share premium and available reserves, together with a reduction in the share capital to USD 190 million from USD 250 million, in order to achieve a healthier balance sheet. It should be noted that total shareholders' equity remains unchanged, but share capital and other components of equity have been revised to remove the burden of accumulated deficit in line with industry best practice. This is a positive development, since it enhances and supports our investment structuring and financing activities, and will enable the Bank to strengthen dividend distributions in future years.

During the year, the Board and Management convened a special workshop to review and refine VCBank's strategy and business model in line with changing market dynamics. While the core pillars of our strategy remain unchanged, there will be greater emphasis on identifying potential exits from existing investments. The Bank's strategy and business philosophy continues to be underlined by an enduring commitment to ethical banking activities, and strong corporate governance and risk management. This entails the adoption of international standards and global best practice, and compliance with the latest regulatory changes introduced by the Central Bank of Bahrain.

In terms of investment activities, I am pleased to report that we successfully arranged and closed two new deals during the year. VCBank continues to rank among the most active investment banks in the region, with investment placements since January 2012 exceeding USD 485 million. Given the challenging global and regional economic and market conditions during the period, the value of placements constitutes a significant achievement for a MENA-focused investment bank.

VENTURE CAPITAL BANK

Based on our financial and operational performance during fiscal year 2014, and our achievements over the past two and a half years, we remain cautiously optimistic about the future prospects for VCBank. We benefit from a supportive Board and strong Management team, a clean balance sheet and sound financial position, and a strong investment deal pipeline. The Bank is therefore – God willing – well placed to take advantage of economic and market improvements, and capture new business opportunities. The latest economic growth estimates for GCC and MENA in 2015 remain encouraging. Underlined by strong macro-economic fundamentals and stable oil prices, the region is expected to continue its robust GDP growth, with the short-term outlook remaining positive. However, based on past experience, we are fully aware that the immediate future will continue to prove both volatile and challenging for the regional investment banking sector.

On behalf of the Board of Directors, I extend my sincere thanks and appreciation to His Majesty the King of Bahrain, His Royal Highness the Prime Minister, and His Royal Highness the Crown Prince and First Deputy Prime Minister, for their wise leadership and reform programme, and their encouragement for the Islamic banking sector. Grateful acknowledgements are also due to the Central Bank of Bahrain, the Ministry of Industry and Commerce, and other Government institutions, for their continued professional advice and support during the period.

I would also like to express my gratitude to our shareholders, clients and business partners for their enduring loyalty and confidence; to our Shari'ah Supervisory Board for their valuable guidance and supervision; and to the Bank's management and staff for their highly-valued dedication and professionalism.

May Allah guide us on the proper path, and lead us to the realisation of our goals for the future success of the Bank.

Dr. Ghassan Ahmed Al Sulaiman
Chairman of the Board

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

We have audited the accompanying consolidated financial statements of Venture Capital Bank B.S.C. (c) (the "Bank") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 30 June 2014, and the consolidated statements of income, changes in equity, cash flows and changes in off-balance sheet equity of investment account holders, and a summary of significant accounting policies and other explanatory information. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Group's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 30 June 2014, the results of its operations, its cash flows, changes in off balances sheet equity of investment account holders for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

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

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 2), we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and

b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association for the year ended 30 June 2014 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

Ernst & Young

18 September 2014
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Note	***30 June 2014 USD '000***	*30 June 2013 USD '000*
ASSETS			
Balances with banks		**2,797**	5,903
Placements with financial institutions	8	**9,414**	4,720
Investments	9	**145,741**	131,567
Investments in associates and joint venture accounted under the equity method	10	**27,847**	25,033
Investment property	11	**-**	9,130
Receivables	12	**31,335**	13,192
Funding to project companies	13	**14,083**	12,858
Other assets	14	**8,901**	9,246
Property and equipment	15	**9,284**	9,912
TOTAL ASSETS		**249,402**	221,561
LIABILITIES			
Islamic financing payable	16	**20,168**	13,011
Employee accruals		**5,969**	4,109
Other liabilities	17	**7,227**	3,963
Total liabilities		**33,384**	21,083
EQUITY			
Share capital	18	**190,000**	250,000
Share premium	18	**-**	28,429
Unvested shares of employee share ownership plan		**(10,000)**	(22,764)
Statutory reserve	18	**3,525**	10,414
Investment fair value reserve	18	**1,196**	245
Employee share ownership plan reserve	18	**-**	5,349
Retained earnings / (accumulated losses)		**31,297**	(71,195)
Total equity		**216,018**	200,478
TOTAL LIABILITIES AND EQUITY		**249,402**	221,561
OFF BALANCE SHEET ITEMS			
Equity of investment account holders		**3,879**	3,740

Dr Ghassan Al Sulaiman
Chairman

Abdullatif M. Janahi
Board Member
and Chief Executive Officer

The attached notes 1 to 39 form part of these consolidated financial statements.

Venture Capital Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF INCOME

For the year ended 30 June 2014

	Note	*Year ended 30 June 2014 USD '000*	*1 January 2012 to 30 June 2013 USD '000*
REVENUE			
Income from investment banking services	19	**16,931**	35,053
Finance income	20	**202**	585
Dividend income		**1,564**	3,858
Rental and other income	21	**3,274**	2,674
Total revenue		**21,971**	42,170
OTHER GAINS (LOSSES)			
Fair value losses on investments at fair value through profit or loss - net	22	**(2,233)**	(7,315)
Other gains on investments - net	23	**700**	1,143
Gain on sale of investment property	11	**3,253**	-
Total income		**23,691**	35,998
EXPENSES			
Staff costs	24	**7,764**	8,452
Travel and business development expenses		**522**	912
Legal and professional fees		**1,136**	1,050
Finance expense	20	**848**	269
Depreciation	15	**640**	1,887
Other expenses	26	**2,281**	3,404
Total expenses		**13,211**	15,974
PROFIT BEFORE IMPAIRMENT PROVISIONS AND SHARE OF LOSS OF ASSOCIATES AND JOINT VENTURE		**10,480**	20,024
Impairment provisions released - net	25	**41**	1,230
Recovery of impaired funding to a project company	25	**4,949**	1,703
Share of losses of associates and joint venture, net	10	**(453)**	(1,812)
PROFIT BEFORE BOARD OF DIRECTORS' REMUNERATION		**15,017**	21,145
Proposed Board of Directors' remuneration	28	**428**	-
NET PROFIT FOR THE YEAR / PERIOO AFTER PROPOSEO BOARD OF DIRECTORS' REMUNERATION		**14,589**	21,145

Dr Ghassan Al Sulaiman
Chairman

Abdullatif M. Janahi
Board Member
and Chief Executive Officer

The attached notes 1 to 39 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2014

	Note	*Share capital USD '000*	*Share premium USD '000*	*Unvested shares of employee share ownership plan USD '000*	*Statutory reserve USD '000*	*Investment fair value reserve USD '000*	*Employee share ownership plan reserve USD '000*	*Retained earnings / accumulated losses USD '000*	*Total USD '000*
Balance at 1 July 2013		250,000	28,429	(22,764)	10,414	245	5,349	(71,195)	200,478
Capital restructuring	18d	(60,000)	(28,429)	12,764	(10,414)	-	(5,349)	91,428	-
Net profit for the year		-	-	-	-	-	-	14,589	14,589
Transfer to statutory reserve	18b, 18d	-	-	-	3,525	-	-	(3,525)	-
Cumulative changes in fair value of available-for-sale investments		-	-	-	-	951	-	-	951
Balance at 30 June 2014		**190,000**	**-**	**(10,000)**	**3,525**	**1,196**	**-**	**31,297**	**216,018**
Balance at 1 January 2012		250,000	28,429	(22,764)	10,414	628	5,349	(92,340)	179,716
Net profit for the period		-	-	-	-	-	-	21,145	21,145
Cumulative changes in fair value of available-for-sale investments		-	-	-	-	(383)	-	-	(383)
Balance at 30 June 2013		250,000	28,429	(22,764)	10,414	245	5,349	(71,195)	200,478

The attached notes 1 to 39 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2014

	Note	Year ended 30 June 2014 USD '000	1 January 2012 to 30 June 2013 USD '000
OPERATING ACTIVITIES			
Net profit for the year / period		**14,589**	21,145
Adjustments for non-cash items:			
Gain on investments	23	**(700)**	(1,143)
Share of results of associates and joint venture accounted under the equity method	10	**453**	1,812
Impairment provisions released - net	25	**(41)**	(1,230)
Depreciation	15	**640**	1,887
Gain on disposal of property and equipment		**(3)**	(100)
Dividend income		**(1,564)**	(3,858)
Gain on sale of investment property	11	**(3,253)**	-
Fair value losses on investments at fair value through profit or loss - net	22	**(2,233)**	(7,315)
Operating profit before changes in operating assets and liabilities		**7,888**	11,198
Changes in operating assets and liabilities:			
Investments		**(8,813)**	(4,043)
Receivable from investment banking services		**(15,440)**	(6,822)
Funding to project companies		**(2,901)**	(4,957)
Other assets		**1,909**	(2,589)
Employee accruals		**1,860**	(2,214)
Other liabilities		**3,264**	98
Net cash used in operating activities		**(12,233)**	(9,329)
INVESTING ACTIVITIES			
Dividends received		**1,080**	2,291
Property and equipment - net	15	**(9)**	(657)
Proceeds from sale and redemption of investments		**5,573**	-
Net cash from investing activities		**8,644**	1,634
FINANCING ACTIVITY			
Islamic financing payables		**7,177**	4,380
Net cash from financing activity		**7,177**	4,380
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**1,588**	(3,315)
Cash and cash equivalents at beginning of the year / period		**10,623**	13,938
CASH AND CASH EQUIVALENTS AT END OF THE YEAR / PERIOD		**12,211**	10,623
Comprising of:			
Balances with banks		**2,797**	5,903
Placements with financial institutions	8	**9,414**	4,720
		12,211	10,623

The attached notes 1 to 39 form part of these consolidated financial statements.

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

For the year ended 30 June 2014

2014	Balance as at 1 July 2013 USD '000	Movements during the year: Investment / withdrawal USD '000	Fair value movement / (impairment) USD '000	Gross income USD '000	Bank's fees as an agent USD '000	Balance as at 30 June 2014 USD '000
GCC Pre IPO Fund	3,740	(17)	156	-	-	3,879
VC Bank Investment Projects Mudarabah	-	-	-	-	-	-
	3,740	**(17)**	**156**	**-**	**-**	**3,879**

2013	Balance as at 1 January 2012	Movements during the period: Investment / withdrawal	Fair value movement / (impaiment)	Gross income	Bank's fees as an agent	Balance as at 30 June 2013
GCC Pre IPO Fund	3,681	(17)	42	34	-	3,740
VC Bank Investment Projects Mudarabah	13,165	(13,404)	-	257	(18)	-
	16,846	(13,421)	42	291	(18)	3,740

	2014 USD '000	2013 USD '000
Investment in equities	**3,877**	3,722
Balances with banks	**2**	18
Total as at 30 June	**3,879**	3,740

The GCC Pre-IPO Fund targets investments in selected GCC equities in the pre-IPO stage with the primary objective of benefiting from the potential market gains expected to arise from their IPO's. Investors nominate the specific equities they wish to participate in from a pool of GCC Pre-IPO equities, specifying the amounts in each, and receive all returns less the Bank's fee of 20% over a 10% simple return.

The VC Bank Investment Projects Mudarabah provides an opportunity for investors to earn attractive returns from providing liquidity financing to selected investment projects from the portfolio of projects promoted by the Group.

The attached notes 1 to 39 form part of these consolidated financial statements.

1 INCORPORATION AND ACTIVITIES

Incorporation
Venture Capital Bank B.S.C. (c) ("the Bank") was incorporated in the Kingdom of Bahrain on 26 September 2005 as a closed shareholding company under commercial registration (CR) number 58222 issued by the Ministry of Industry and Commerce. The Bank is licensed as a wholesale Islamic bank by the Central Bank of Bahrain ("CBB") and is subject to the regulations and supervision of the CBB. The Bank's registered office is Building 247, Road 1704, Block 31, Diplomatic Area, Kingdom of Bahrain.

Activities
The principal activities of the Bank comprise venture capital, real estate and private equity investment transactions and related investment advisory services. The Bank conducts all its activities in compliance with Islamic Shari'a under the guidance and supervision of the Bank's Shari'a Supervisory Board, and in compliance with applicable laws and regulations.

Change of reporting period
Following the approval of the Bank's shareholders at an extraordinary general meeting on 25 April 2012 and after obtaining the necessary regulatory approval, the Bank changed its financial reporting period to end as of 30 June. Accordingly, comparative figures included in the consolidated statements of income, changes in equity, cash flows and changes in off-balances sheet equity of investment account holders and related explanatory notes cover a period of 18 months period ended 30 June 2013 and therefore are not necessarily comparable. These consolidated financial statements are prepared for the 12 month period ended 30 June 2014.

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary companies (together, "the Group"). Refer to note 6 for details of the Bank's subsidiaries.

These consolidated financial statements were approved by the Bank's Board of Directors on 21 July 2014.

2 BASIS OF PREPARATION

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

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

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

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

2 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)
All intra-group balances, transactions, income and expenses and profit and losses are eliminated in full.

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

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

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

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

Impairment on assets carried at amortised cost
Judgement by management is required in the estimation of the amount and timing of future cash flows when determining impairment loss. In estimating these cash flows, the Group makes judgements about the liquidity of the project, evidence of deterioration in the financial health of the project, impacts of delays in execution and the net realisable value of any underlying assets. These estimates are based on assumptions about a number of factors, and actual results may differ, resulting in future changes to the allowance. Each asset is assessed on its merits, and the strategy to recover and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department and approved by the Finance and Investment Committee.

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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

Consolidation of special purpose entities (SPEs)
The Group sponsors the formation of SPEs primarily for the purpose of allowing clients to hold investments. The Group provides nominee, corporate administration, investment management and advisory services to these SPEs, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPEs that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group's intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

4 NEW AND AMDENDED STANDARDS AND INTERPRETATIONS

Standard issued and effective for adoption from 1 January 2013
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous year, except for the adoption of the following new standard effective as of 1 January 2013:

FAS 26 Investment in real estate
The Group has adopted FAS 26 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investment in real estate that is acquired for the purpose of earning periodical income or held for future capital appreciation, or both. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, an entity has the option to adopt either the fair value model or the cost model and shall apply that policy consistently to all of its investment in real estate. The Group has opted for the cost model. The adoption of FAS 26 had no impact on the Group's consolidated financial statements.

New standards, amendments and interpretations issued but not yet effective for adoption
There are no AAOIFI accounting standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2014 that would be expected to have a material impact on the Group.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency transactions

(i) Functional and presentation currency
Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in USD, which is the Bank's functional and presentation currency.

(ii) Transactions and balances
Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to the consolidated statement of income.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Foreign currency transactions (continued)

(ii) Transactions and balances (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined and the differences are included in equity as part of the fair value adjustment of the respective items. Fair value differences arising from investments in associates denominated in a foreign currency are taken to "foreign currency translation reserve" forming part of equity.

(iii) Group companies

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

(b) Financial assets and liabilities

(i) Recognition and de-recognition

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

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

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

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

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

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

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

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

(ii) Classification of financial assets and liabilities

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial assets and liabilities (continued)

(iii) Measurement principles

Financial assets and liabilities are measured either at fair value, amortised cost or, in certain cases, cost.

Fair value measurement

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

Amortised cost

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

(c) Investments

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

(i) Classification

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

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

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

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

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

(ii) Initial recognition

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Investments (continued)

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

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

(iv) Fair value measurement principles
The determination of fair value for investments depends on the accounting policy as set out below:

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

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

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

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

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Other financial assets carried at amortised cost

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

(e) Investment in associates accounted under the equity method

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

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

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

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

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

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

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

(f) Investment in a joint venture accounted under the equity method

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

(g) Investment property

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the entities in the Group, are classified as investment properties and are accounted for under the cost method net of accumulated depreciation. Investment property comprises freehold land and building.

If the entity has made the decision to sell an investment in real estate and expects the sale to occur within twelve months of the end of its reporting period, the investment shall be reclassified in the statement of financial position as 'investment in real estate held-for-sale'. Depreciation on investment in real estate carried at cost is discontinued from the date of such reclassification and the investment shall be carried at the lower of its carrying value and expected fair value less costs to sell (net realisable value). Any adjustment shall be recognised in the consolidated statement of income.

However, if the investment in real estate is not sold within twelve months (except for delays in conclusion of a sale transaction in its normal course of business beyond the control of the entity) or the plan to sell has been discontinued, the asset is reclassified to its previous classification. For investment in real estate carried at cost, the asset is remeasured to the lower of its recoverable amount and the carrying amount that would have been recognised if the asset would not have been classified as held-for-sale. The resulting adjustment is recognised in the consolidated statement of income of the period when reclassification is made.

(h) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash and balances with banks and placements with financial institutions with original maturities of ninety days or less.

(i) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method to write-off the cost of the assets over the following estimated useful lives. Land is not depreciated. Residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Building	40 years
Office equipment	4 years
Furniture and fixtures	5 years
Motor vehicles	4 years

(j) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of non-financial assets (continued)

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income. Impairment losses relating to goodwill cannot be reversed in future periods.

(k) Islamic financing payable

Islamic financing payables are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method. Finance expense is recognised in the consolidated statement of income on a time-apportioned basis at the effective profit rate.

(l) Financial guaranteea

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment, when a payment under the guarantee has become probable. The Group only issues financial guarantees to support its development projects and investee entities.

(m) Dividends and Board remuneration

Dividends to shareholders and board remuneration are recognised as liabilities in the period in which they are approved by the shareholders at the Bank's Annual General Meeting.

(n) Share capital and statutory reserve

Ordinary shares issued by the Bank are classified as equity. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Treasury shares

The amount of consideration paid including all directly attributable costs incurred in connection with the acquisition of the treasury shares are recognised in equity. Consideration received on sale of treasury shares is presented in the financial statements as a change in equity. No gain or loss is recognised on the Group's consolidated statement of income on the sale of treasury shares.

Statutory reserve

The Bahrain Commercial Companies Law 2001 requires that 10 per cent of the annual profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 per cent of the paid up share capital.

(o) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The specific recognition criteria described below must also be met before revenue is recognised.

Income from investment banking services

Income from investment banking services comprise income from investment advisory and structuring income, advisory fee, placement and arrangement fee and other fees arising from related activities, as further explained below:

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Revenue recognition (continued)

(i) Investment advisory and structuring income

Investment advisory and structuring income is recognised when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Group.

(ii) Fee income

Fee income is recognised when earned and the related services are performed and / or upon achieving required performance.

(iii) Income from placements with financial institutions

Income from placements with financial institutions is recognised on a time-apportioned basis over the period of the related contract.

(iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

(p) Operating leases

Payments made under operating leases are recognised in the consolidated statement of income on a straight-line basis over the term of the lease.

(q) Off-balance sheet equity of investment account holders

Off-balance sheet equity of investment account holders represent assets acquired using funds provided by holders of restricted investment accounts and managed by the Group as an investment manager based on either a mudaraba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investment account holders. Assets that are held in such capacity are not included as assets of the Group in the consolidated financial statements.

(r) Employee benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Post employment benefits

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organisation (SIO) scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Bank are recognised as an expense in the consolidated statement of income. The Bank's obligations are limited to these contributions, which are expensed when due.

Employees are also entitled to leaving indemnities payable based on length of service and final remuneration. Provision for this unfunded commitment, which is a "defined benefit scheme" in nature, has been made by calculating the notional liability had all employees left at the date of the statement of financial position. Any increase or decrease in the benefit obligation is recognised in the consolidated statement of income.

(iii) Share based payment transactions

The Group has established an employee share ownership plan (ESOP) under which employees are entitled to purchase units in the ESOP on a deferred payment basis. Each unit carries the rights to benefits of ownership of one share of the Bank upon completion of a five year service lock-in period. The cost to the Group, representing the fair value of the units offered determined, using the Black-Scholes model, is recognised as an expense in the consolidated statement of income over the vesting period, with corresponding increase in the ESOP reserve recognised as a separate component of the consolidated statement of changes in equity. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share awards that meet the related service conditions at the vesting date.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the consolidated statement of income net, of any reimbursement.

(t) Segment reporting

The Group primarily operates as an investment bank and its lines of business comprise venture capital, private equity and real estate. At present the Group's revenue is reviewed by lines of business and the expenses and results are reviewed at a Group level and therefore no separate operating segment results and other disclosures are provided in these consolidated financial statements.

(u) Zakah

In the absence of appointment of the Bank to pay Zakah on behalf of the shareholders, the responsibility of payment of Zakah is on individual shareholders of the Group. The Zakah per share amount is presented in note 29.

(v) Offsetting financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the consolidated statement of financial position, if and only if there is a legally enforceable or religious right (based on Shari'a) to set off the recognised amounts and the Group intends to settle on a net basis.

(w) Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

6 INVESTMENT IN SUBSIDIARIES

Key subsidiaries of the Group are as follows. There is no change in the percentage holding of the subsidiaries during the year and all of them are wholly owned.

Name of subsidiary	Year of incorporation	Country of incorporation	Principal activities
Gulf Projects Company W.L.L.	1998	Kingdom of Bahrain	To own an interest in and operate the VC Bank Building.
MENA SME Fund Manager Limited	2006	Cayman Island	Fund manager to MENA SME Fund 1 LP.
Lime Restaurant Management and Catering Services Co. W.L.L.	2007	Kingdom of Bahrain	To own, operate and manage restaurant and catering services companies.
The Lounge Serviced Offices Company W.L.L.	2007	Kingdom of Bahrain	To own, operate and manage serviced offices in Bahrain and regionally.
VC Bank ESOP S.P.C.	2008	Kingdom of Bahrain	To hold employee share ownership plan shares on behalf of the employees of the Bank.

7 CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

At 30 June 2014

	Fair value through profit or loss USD '000	*Available-for-sale USD '000*	*Amortised cost / cost USD '000*	*Total USD '000*
ASSETS				
Balances with banks	-	-	2,797	2,797
Placements with financial institutions	-	-	9,414	9,414
Investments	93,657	52,084	-	145,741
Receivable from investment banking services	-	-	31,335	31,335
Funding to project companies	-	-	14,083	14,083
Other assets	-	-	8,626	8,626
TOTAL FINANCIAL ASSETS	93,657	52,084	66,255	211,996
Islamic financing payable	-	-	20,188	20,188
Other liabilities	-	-	3,550	3,550
TOTAL FINANCIAL LIABILITIES	-	-	23,738	23,738
OFF BALANCE SHEET ITEMS				
Equity of investment account holders	-	3,877	2	3,879

At 30 June 2013

	Fair value through profit or loss USD '000	*Available-for-sale USD '000*	*Amortised cost / cost USD '000*	*Total USD '000*
ASSETS				
Balances with banks	-	-	5,903	5,903
Placements with financial institutions	-	-	4,720	4,720
Investments	84,559	47,008	-	131,567
Receivable from investment banking services	-	-	13,192	13,192
Funding to project companies	-	-	12,858	12,858
Other assets	-	-	8,978	8,978
TOTAL FINANCIAL ASSETS	84,559	47,008	45,651	177,218
Islamic financing payable	-	-	13,011	13,011
Other liabilities	-	-	927	927
TOTAL FINANCIAL LIABILITIES	-	-	13,938	13,938
OFF BALANCE SHEET ITEMS				
Equity of investment account holders	-	3,722	18	3,740

8 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	30 June 2014 USD '000	30 June 2013 USD '000
Short-term placements	**9,428**	4,725
Less: Deferred profits	**(14)**	(5)
	9,414	4,720

Short-term placements comprise commodity murabaha and wakala deals entered into for cash management purposes with local Islamic banks of good credit standing. These carry annual profit rates ranging between 0.20% and 2.00% (2013: 1.75% and 3.90%) and mature within 90 days of initial placement.

The Group considers the promise made in the Murabaha to the purchase orderer as obligatory.

9 INVESTMENTS

	30 June 2014 USD '000	30 June 2013 USD '000
Investments at fair value through profit or loss		
Quoted equities held for trading	**897**	93
Unquoted:		
Equities	**79,314**	70,495
Fund	**13,446**	13,971
	93,657	84,559
Available-for-sale investments		
Quoted equities	**2,528**	1,577
Unquoted equities	**48,378**	42,918
Managed fund - at net asset value	**-**	13
Short term liquidity certificates	**1,180**	2,500
	52,084	47,008
	145,741	131,567

Investments in unquoted equities are carried at cost less impairment in the absence of reliable measure of fair value. Short term liquidity certificates comprise Shari'a compliant asset backed certificates for which the carrying value approximates its fair value.

These investments comprise equites in the following market segments:

	30 June 2014 USD '000	30 June 2013 USD '000
Real estate projects	**14,388**	11,216
Business development projects	**16,192**	16,192
Healthcare projects	**12,960**	10,160
Financial services	**1,915**	3,248
Shipping	**4,101**	4,101
Oil and Gas	**-**	514
	49,556	45,431

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

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

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

			% holding	
Name of associate	***Nature of business***	***Country of incorporation***	***30 June 2014***	*30 June 2013*
Mozon Holding SA	Investment development	Kingdom of Morocco	**20**	20
German Medical Centre Bahrain	Specialist orthopaedic hospital	Kingdom of Bahrain	**30**	30
Dari Holdings	Real estate development	Kingdom of Bahrain	**43**	43
House of Development (HoD)*	Software development	Kingdom of Saudi Arabia	**-**	49
Venture Capital Fund	Small & medium enterprises investment fund	Kingdom of Bahrain	**30**	30

* During the year, the Bank exited its investment in HoD through a sale transaction to a shareholder of HoD.

			% holding	
Name of joint venture	***Nature of business***	***Country of incorporation***	***30 June 2014***	*30 June 2013*
Global Real Estate Co. W.L.L.	Real estate development	Kingdom of Bahrain	**50**	50

The carrying value comprises:	***30 June 2014 USD '000***	*30 June 2013 USD '000*
Associates	**3,699**	4,114
Joint venture	**24,148**	20,919
	27,847	25,033

Movements in investments in associates and joint venture accounted under equity method are as follows:

	Year ended 30 June 2014 USD '000	*1 January 2012 to 30 June 2013 USD '000*
At 1 July / 1 January	**25,033**	29,474
Redemption / sale of investment	**-**	(2,370)
Capitalisation of funding*	**3,267**	-
Share of losses of associates and joint venture, net	**(453)**	(1,812)
Impairment allowance (note 25)	**-**	(259)
At 30 June	**27,847**	25,033

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

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

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

	30 June 2014 USD '000	*30 June 2013 USD '000*
Total assets	**86,496**	92,152
Total liabilities	**27,033**	38,823
Total revenues for the year / period	**697**	6,706
Total net loss for the year / period	**(1,077)**	(5,805)

11 INVESTMENT PROPERTY

This comprises a plot of land located in the Kingdom of Bahrain in which the Bank held an ownership interest of 90%. During the year the Bank sold its entire interest in the investment property to a proposed development project in which two members of the Bank's board of directors hold a majority stake (refer note 28). The Bank will hold 18% stake in the proposed development company which is classified as an available-for-sale investment. As of 30 June 2014, the legal and regulatory formalities relating to the incorporation of the development company is in progress.

The Bank realised a gain of USD 3,253 thousand from the sale which has been recognised in the statement of income.

12 RECEIVABLES

	30 June 2014 USD '000	*30 June 2013 USD '000*
Receivable from investment banking services	**31,680**	22,893
Receivable on sale of investment property (note 28)	**9,906**	-
	41,586	22,893
Less: Specific impairment provision	**(10,251)**	(9,701)
	31,335	13,192

Movement in specific impairment provisions for receivables from investment banking services is as follows:

	Year ended 30 June 2014 USD '000	*1 January 2012 to 30 June 2013 USD '000*
At 1 July / 1 January	**9,701**	10,209
Reversal	-	(160)
Write-off	-	(653)
Transfer from collective impairment provision	-	150
Charge for the year / period (note 25)	**550**	155
At 30 June	**10,251**	9,701

13 FUNDING TO PROJECT COMPANIES

	30 June 2014 USD '000	*30 June 2013 USD '000*
Gross funding	**34,802**	40,117
Less: Impairment provision	**(20,719)**	(27,259)
	14,083	12,858

These relate to funding provided to projects and investments promoted by the Group. The financing facilities are generally free of profit and do not have specific terms of repayment, and are expected to be recovered in the course of project development or on realisation of cash flows from sale of the underlying assets or through their operations. Impairment allowances have been recorded where necessary to reflect delays and doubts over recoverability based on the Group's regular impairment assessments.

Movement in impairment provision for funding to project companies is as follows:

	Year ended 30 June 2014 USD '000	*1 January 2012 to 30 June 2013 USD '000*
At 1 July / 1 January	**27,259**	32,567
Write-off	-	(2,597)
Transfer out of collective impairment provision to specific provision	-	(2,534)
Transfer from collective impairment provision	-	1,884
Specific impairment charge for the year / period (note 25)	**260**	871
Collective impairment charge for the year / period (note 25)	**540**	2,388
Recovery of impaired funding to a project company (note 25)	**(4,949)**	-
Release of collective impairment provision (note 25)	**(2,391)**	(5,300)
At 30 June	**20,719**	27,259

14 OTHER ASSETS

	30 June 2014 USD '000	*30 June 2013 USD '000*
Advances to acquire investments	**7,065**	7,353
Project costs recoverable	**1,592**	1,497
Dividend receivable	**993**	1,075
Other receivables	**1,586**	1,656
Less: Specific impairment provision	**(2,335)**	(2,335)
	8,901	9,246

Movement in specific impairment provisions is as follows:

	Year ended 30 June 2014 USD '000	*1 January 2012 to 30 June 2013 USD '000*
At 1 July / 1 January	**2,335**	1,680
Reversal of provision	-	(145)
Transfer from collective impairment provision	-	500
Charge for the year / period (note 25)	-	300
At 30 June	**2,335**	2,335

15 PROPERTY AND EQUIPMENT

	Building USD '000	Office equipment USD '000	Furniture and fixtures USD '000	Motor vehicles USD '000	Total USD '000
Cost					
At 1 July 2013	10,098	1,528	4,841	483	16,950
Additions during the year	-	12	-	-	12
Reclassification of fixed assets	-	116	(116)	-	-
Disposal	-	-	(28)	-	(28)
At 30 June 2014	**10,098**	**1,856**	**4,697**	**483**	**16,934**
Depreciation					
At 1 July 2013	976	1,411	4,465	186	7,038
Charge for the year	278	161	112	89	640
Disposal	-	-	(28)	-	(28)
At 30 June 2014	**1,254**	**1,572**	**4,549**	**275**	**7,650**
Net book value at 30 June 2014	**8,844**	**84**	**148**	**208**	**9,284**
Net book value at 30 June 2013	9,122	117	376	297	9,912

16 ISLAMIC FINANCING PAYABLE

		30 June 2014 USD '000	30 June 2013 USD '000
Medium term borrowing	16.1	**10,174**	-
Short term borrowings	16.2	**10,014**	13,011
		20,188	13,011

16.1 The medium term borrowing of USD 10 million (2013: nil) carries a profit rate of 7.75% per annum, maturing on 9 October 2016. The borrowing is secured by the Group's interest in a self-occupied property.

16.2 These consist of short-term wakala borrowings from local Islamic banks with maturities of not more than one month. These borrowings carry profit rates ranging from 0.50% to 2.50% (2013: 0.75% to 2.85%).

17 OTHER LIABILITIES

	30 June 2014 USD '000	30 June 2013 USD '000
Accounts payable	**3,550**	927
Provisions and accruals	**1,817**	1,603
Deferred income	**1,348**	1,294
Board of Directors' remuneration (note 28)	**428**	-
Other	**84**	139
	7,227	3,963

18 SHARE CAPITAL

	30 June 2014 USD '000	*30 June 2013 USD '000*
Authorised: 500,000,000 ordinary shares of USD 1 each	**500,000**	500,000
Issued and fully paid up: 190,000,000 shares of USD 1 each (2013: 250,000,000 shares of USD 1 each)	**190,000**	250,000

a) Share premium

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated by the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

b) Statutory reserve

As required by the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the profit for the year amounting to USD 1,502 thousand (2013: nil) has been transferred to a statutory reserve. Additionally, an amount of USD 2,023 thousand (2013: nil) was also transferred to statutory reserve in December 2013 as explained in (d) below, bringing the total transfer to statutory reserve for the year to USD 3,525 thousand (2013: nil). The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

c) Investment fair value reserve

The unrealised fair value gains or losses from revaluation of available-for-sale investments, if not determined to be impaired, are recorded under the investment fair value reserve in equity. Upon disposal of such assets, the related cumulative gains or losses are transferred to the consolidated statement of income.

d) Capital restructuring

Following necessary regulatory approvals, at the Extraordinary General Meeting ("EGM") of the shareholders held on 9 December 2013, the shareholders resolved to absorb the past accumulated losses of the Bank against available balances in share premium, statutory reserve and employee share ownership plan reserve ("ESOP") totalling USD 44,192 thousand, and to reduce the paid up share capital of the Bank by USD 47,236 thousand. The shareholders also resolved to reduce the shares allocated to the ESOP to USD 10,000 thousand from the existing USD 22,764 thousand.

Furthermore, at the Annual General Meeting of the shareholders held on 9 December 2013, the shareholders resolved to transfer an amount of USD 2,023 thousand from the net profits of the period ended 30 June 2013 to the statutory reserve. The effect of these shareholder resolutions have been reflected in the Bank's paid up share capital and reserves reported in these consolidated financial statements.

e) Proposed dividend

The Board of Directors proposed a cash dividend of USD 5 cents per share totalling USD 9,238 thousand from the earnings of 2014 (2013: nil). Payment of this dividend is subject to approval by the Central Bank of Bahrain and shareholders at the Annual General Assembly of Shareholders' Meeting.

19 INCOME FROM INVESTMENT BANKING SERVICES

	Year ended 30 June 2014 USD '000	*1 January 2012 to 30 June 2013 USD '000*
Investment structuring income	**12,718**	28,474
Investment management and arrangement fees	**4,213**	6,579
	16,931	35,053

20 FINANCE INCOME AND EXPENSE

	Year ended 30 June 2014 USD '000	*1 January 2012 to 30 June 2013 USD '000*
Finance income		
Income from placements with financial institutions	**202**	350
Income from funding to project companies	**-**	235
	202	585
Finance expense		
Profit on murabaha and wakala borrowings	**(848)**	(269)
Net finance (expense) income	**(646)**	316

21 RENTAL AND OTHER INCOME

	Year ended 30 June 2014 USD '000	*1 January 2012 to 30 June 2013 USD '000*
Rental and property management income	**1,447**	2,647
Other income	**1,827**	27
	3,274	2,674

Other income for the year ended 30 June 2014 mainly comprises USD 1,294 thousand (2013: nil) of profit recognised and collected on mezzanine fundings provided to a project company. These were not previously recognised due to uncertainties on the project's capacity to pay.

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

	Year ended 30 June 2014 USD '000	*1 January 2012 to 30 June 2013 USD '000*
Trading securities	**17**	(15)
Investments designated at fair value through profit or loss	**(2,250)**	(7,300)
	(2,233)	(7,315)

22 FAIR VALUE LOSSES ON INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS - NET (continued)

Details of gains and losses by type of investments are as follows:

30 June 2014	***Trading*** ***USD '000***	***Designated at fair value*** ***USD '000***	***Total*** ***USD '000***
Fair value gains	**17**	**-**	**17**
Fair value losses	**-**	**(2,250)**	**(2,250)**
	17	**(2,250)**	**(2,233)**

30 June 2013	*Trading* *USD '000*	*Designated at fair value* *USD '000*	*Total* *USD '000*
Fair value gains	-	-	-
Fair value losses	(15)	(7,300)	(7,315)
	(15)	(7,300)	(7,315)

23 OTHER GAINS ON INVESTMENTS - NET

	Year ended 30 June 2014 ***USD '000***	*1 January 2012 to 30 June 2013* *USD '000*
Gain on sale of available for sale investment - net	**427**	1,124
Gain on sale of investment designated at fair value through profit or loss	**273**	-
Other	**-**	19
	700	1,143

24 STAFF COSTS

	Year ended 30 June 2014 ***USD '000***	*1 January 2012 to 30 June 2013* *USD '000*
Salaries and benefits	**7,366**	7,744
Social insurance expenses	**414**	699
Other staff expenses	**4**	9
	7,784	8,452

25 IMPAIRMENT PROVISIONS RELEASED - NET

	Specific impairment provisions relating to						
30 June 2014	*Investments USD '000*	*Investments in associates and JV USD '000*	*Receivable from investment banking services (Note 12) USD '000*	*Funding to project companies (Note 13) USD '000*	*Other assets (Note 14) USD '000*	*Collective impairment provision* (Note 13) USD '000*	*Total USD '000*
Provision at the beginning of the period	(28,650)	(5,173)	(9,701)	(23,400)	(2,335)	(3,859)	**(73,118)**
Charge for the year	(1,000)	-	(550)	(260)	-	(540)	**(2,350)**
Release from collective impairment provision	-	-	-	-	-	2,391	**2,391**
Impairment provisions (charged) / released	**(1,000)**	-	**(550)**	**(260)**	-	**1,851**	**41**
Recovery of impaired funding to a project company	-	-	-	4,949	-	-	**4,949**
Write-offs	910	-	-	-	-	-	**910**
Provision at the end of the year	**(28,740)**	**(5,173)**	**(10,251)**	**(18,711)**	**(2,335)**	**(2,008)**	**(67,218)**

* Collective impairment provision relates to funding to project companies (refer to note 13).

25 IMPAIRMENT PROVISIONS RELEASED - NET (continued)

	Specific impairment provisions relating to						
30 June 2013	*Investments USD '000*	*Investments in associates and JV USD '000*	*Receivable from investment banking services (Note 12) USD '000*	*Funding to project companies (Note 13) USD '000*	*Other assets (Note 14) USD '000*	*Collective impairment provision* (Note 13) USD '000*	*Total USD '000*
Provision at the beginning of the period	(30,763)	(4,442)	(10,209)	(23,242)	(1,680)	(9,325)	(79,661)
Charge for the year	(117)	(259)	(155)	(871)	(300)	(2,368)	(4,070)
Release from collective impairment provision	-	-	-	-	-	5,300	5,300
Impairment provisions (charged) / released	(117)	(259)	(155)	(871)	(300)	2,932	1,230
Transfers	(1,117)	(472)	-	-	-	-	(1,589)
Transfer from collective impairment provision	-	-	(150)	(1,884)	(500)	2,534	-
Reversals	3,347	-	160	-	145	-	3,652
Write-offs	-	-	653	2,597	-	-	3,250
Provision at the end of the year	(28,650)	(5,173)	(9,701)	(23,400)	(2,335)	(3,859)	(73,118)

* Collective impairment provision relates to funding to project companies (refer to note 13).

26 OTHER EXPENSES

	Year ended 30 June 2014 USD '000	*1 January 2012 to 30 June 2013 USD '000*
Rent and office expenses	**1,608**	2,595
Publicity, conferences and promotion	**149**	182
Board of directors and Shari'a supervisory board	**466**	583
Other	**58**	44
	2,281	3,404

27 EMPLOYEE SHARE OWNERSHIP PLAN

On 1 October 2007, the Group set up an employees' share ownership plan (ESOP) under which employees are offered units in the ESOP for purchase at the book value of the equity shares of the Bank determined as on the grant date. Each unit represents the rights to the benefits of one equity share in the Bank and the purchase price of these units is to be paid in instalments over a five year service vesting period upon which the employee will be allotted shares underlying these units. The units carry the rights to the full value of the underlying shares including dividends and participation in bonus rights conditional on completion of the service period and settlement of the cost of the units. The cost to the Bank (being the fair value of units offered at each grant date as determined by an independent firm of consultants using appropriate valuation techniques) is recognised as an expense in the consolidated statement of income over the service vesting period and credited to the ESOP reserve in equity. Consequent to the share capital reduction completed during the year as explained in note 18, this reserve was reduced to USD nil as at 30 June 2014 (30 June 2013: USD 5.349 million).

The shareholders have authorised issue of up to 10 million shares (2013: 24.852 million shares) to the ESOP under this scheme. The Group has incorporated VC Bank ESOP SPC, a special purpose vehicle, to hold the shares for the benefit of the participating employees under the ESOP. The shares issued to the ESOP are treated as treasury shares until they unconditionally vest to the benefit of the employees.

The vesting charge and the amounts of writebacks during the year for employees no longer in service amounted to USD nil (2013: vesting charge of nil and write back of USD 244 thousand).

Movement in the ESOP units during the period:
The following table illustrates the number and weighted average purchase price (WAPP) of, and movements in ESOP units, during the year.

	30 June 2014		*30 June 2013*	
	No of units (thousands)	***WAPP $***	*No of units (thousands)*	*WAPP $*
Outstanding at 1 July 2013 / 1 January 2012	**5,637**	**1.088**	6,657	1.085
Relating to leavers during the year / period	**-**	**-**	(1,020)	1.064
Outstanding at 30 June excluding bonus entitlements	**5,637**	**1.088**	5,637	1.088
Entitlements to bonus units from past share dividends	**786**		786	
Total units including bonus entitlements	**6,423**		6,423	

27 EMPLOYEE SHARE OWNERSHIP PLAN (continued)

Under the ESOP Rules, the Units vest upon completion of the 5 year service period and full payment of purchase price (both conditions to be satisfied). These conditions remained to be satisfied as at 30 June 2014 and, accordingly, no units were exercisable for vesting as at 30 June 2014. However, as of 30 June 2014, the Group is reviewing its ESOP in the light of the capital restructuring (note 18) and the Central Bank of Bahrain's new remuneration regulations. Management anticipate that decisions in respect of the vesting and possible changes to the ESOP will be made on completion of this review.

28 RELATED PARTY TRANSACTIONS

Related parties represent shareholders, directors and key management of the Group, and entities controlled, jointly controlled or significantly influenced by such parties.

A significant portion of the Group's income from investment banking services and management fees are from entities over which the Group exercises influence. Although these entities are considered related parties, the Group administers and manages these entities on behalf of its clients, who are mostly third parties and are the economic beneficiaries of the underlying investments.

28 RELATED PARTY TRANSACTIONS (continued)

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

30 June 2014	*Associates and joint venture USD '000*	*Board members/ key management personnel/ Shari'a board members/ external auditors USD '000*	*Significant shareholders / entities in which directors are interested USD '000*	*Assets under management (including special purpose entities) USD '000*	*Total USD '000*
Assets					
Balances with banks	-	-	1,098	-	**1,098**
Placements with financial institutions	-	-	981	-	**981**
Investments	-	-	47,278	-	**47,278**
Investments in associates and joint venture	27,847	-	-	-	**27,847**
Receivables	2,053	9,906	4,426	-	**16,385**
Funding to project companies	5,211	-	2,808	-	**8,019**
Other assets	58	-	225	-	**283**
Liabilities					
Employee accruals	-	1,586	-	-	**1,588**
Other liabilities	-	428		-	**428**
Income					
Income from investment banking services	2,218	-	-	-	**2,218**
Share of loss of associates and joint venture accounted for using the equity method	(453)	-	-	-	**(453)**
Other income	-	-	1,981	-	**1,981**
Realised gain on sale of investment property	-	3,253	-	-	**3,253**
Expenses (excluding compensation for key management personnel)					
Impairment allowances against investments	-	-	-	-	**-**
Impairment allowances against receivables	260	-	-	-	**260**
Commitments and contingencies	956	-	-	-	**956**
Equity of investment account holders	-	-	-	-	**-**

28 RELATED PARTY TRANSACTIONS (continued)

30 June 2013	*Associates and joint venture USD '000*	*Board members/ key management personnel/ Shari'a board members/ external auditors USD '000*	*Significant shareholders / entities in which directors are interested USD '000*	*Assets under management (including special purpose entities) USD '000*	*Total USD '000*
Assets					
Balances with banks	-	-	1,080	-	1,080
Placements with financial institutions	-	-	920	-	920
Investments	-	-	46,623	-	46,623
Investments in associates and joint venture	25,033	-	-	-	25,033
Receivables	34	-	3,800	-	3,834
Funding to project companies	7,314	-	2,794	-	10,108
Other assets	56	-	89	-	145
Liabilities					
Employee accruals	-	1,397	-	-	1,397
Income					
Income from investment banking services	2,344	-	-	-	2,344
Share of loss of associates and joint venture accounted for using the equity method	(1,812)	-	-	-	(1,812)
Other income	1,200	-	2,992	-	4,192
Expenses (excluding compensation for key management personnel)					
Impairment allowances against investments	259	-	-	-	259
Impairment allowances against receivables	121	-	637	-	758
Commitments and contingencies	824	-	-	-	824
Equity of investment account holders	-	-	-	-	-

28 RELATED PARTY TRANSACTIONS (continued)

Key management personnel
Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

Details of Directors' interests in the Bank's ordinary shares as at the year / period end were:

Categories*

	30 June 2014		*30 June 2013*	
	Number of Shares	***Number of Directors***	*Number of Shares*	*Number of Directors*
Less than 1%	**9,393,341**	**7**	9,393,341	7
1% up to less than 5%	**35,520,848**	**5**	35,520,848	5

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

Details of material contracts involving directors include:

	30 June 2014 USD '000	*30 June 2013 USD '000*
Directors' participation in investments promoted by the Group	**45,465**	23,909

Compensation of directors and key management personnel are as follows:

	Year ended 30 June 2014 USD '000	*1 January 2012 to 30 June 2013 USD '000*
Board member fees	**298**	289
Salaries and other short-term benefits	**1,731**	1,859
	2,029	2,148

Terms and conditions of transactions with related parties
The Group enters into transactions, arrangements and agreements with its related parties in the ordinary course of business at commercial profit rates and fees. The above mentioned transactions and balances arose from the ordinary course of business of the Group. Outstanding balances at the period end are unsecured.

Board of Directors' remuneration
During the year the Nomination and Remuneration Committee of the Board approved the payment of Board of Directors' remuneration of USD 428 thousand (2013: nil), the payment of which is subject to the approval of the shareholders' general assembly.

29 ZAKAH

In accordance with the Articles of Association, the Bank is not required to collect or pay Zakah on behalf of its shareholders or its off-balance sheet equity accounts holders and during the period ended 30 June 2013 and the prior period, the Bank did not pay Zakah on behalf of its shareholders. Accordingly, statement of sources and users of Zakah Fund is not presented in the financial statements. However, the Bank is required to calculate and notify individual shareholders of their pro-rata share of Zakah on each share held in the Bank. Zakah payable by the shareholders is computed by the Bank based on the method prescribed by the Bank's Shari'a Supervisory Board. Zakah payable by the shareholders in respect of each share for the year ended 30 June 2014 is US 0.7853 for every share held (2013: US cents 0.5752 for every share held). Investors should be aware that the ultimate responsibility of calculating and paying the Zakah due on them is their sole responsibility.

30 EARNINGS PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means. There were no earnings from non-Islamic sources during the year (2013: nil).

31 SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board consists of three Islamic scholars who review the Group's compliance with general Shari'a principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

32 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organisations.

33 MATURITY PROFILE

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

30 June 2014	*No fixed maturity USD '000*	*Up to 3 months USD '000*	*3 to 6 months USD '000*	*6 months to 1 year USD '000*	*Total up to 1 year USD '000*	*1 to 3 years USD '000*	*Over 3 years USD '000*	*Total USD '000*
Assets								
Balances with banks	-	2,797	-	-	2,797	-	-	**2,797**
Placements with financial institutions	-	9,136	-	278	9,414	-	-	**9,414**
Investments	144,561	-	-	1,180	1,180	-	-	**145,741**
Investments in associates and joint venture	27,847	-	-	-	-	-	-	**27,847**
Investment property	-	-	-	-	-	-	-	-
Receivables	-	2,894	15,206	-	18,100	11,699	1,536	**31,335**
Funding to project companies	-	-	-	-	-	11,957	2,126	**14,083**
Other assets	557	9	1,843	5,514	7,366	968	10	**8,901**
Property and equipment	9,284	-	-	-	-	-	-	**9,284**
Total assets	**182,249**	**14,836**	**17,049**	**6,972**	**38,857**	**24,624**	**3,672**	**249,402**
Liabilities								
Islamic financing payables	-	10,014	-	-	10,014	10,174	-	**20,188**
Employee accruals	4,469	-	1,500	-	1,500	-	-	**5,969**
Other liabilities	18	202	1,906	395	2,503	3,050	1,656	**7,227**
Total liabilities	**4,487**	**10,216**	**3,406**	**395**	**14,017**	**13,224**	**1,656**	**33,384**
Net liquidity gap	**177,762**	**4,620**	**13,643**	**6,577**	**24,840**	**11,400**	**2,016**	**240,858**
Cumulative liquidity gap	**177,762**	**182,382**	**196,025**	**202,602**	**227,442**	**238,842**	**240,858**	-

33 MATURITY PROFILE (continued)

30 June 2013	*No fixed maturity USD '000*	*Up to 3 months USD '000*	*3 to 6 months USD '000*	*6 months to 1 year USD '000*	*Total up to 1 year USD '000*	*1 to 3 years USD '000*	*Over 3 years USD '000*	*Total USD '000*
Assets								
Balances with banks	-	5,903	-	-	5,903	-	-	5,903
Placements with financial institutions	-	4,720	-	-	4,720	-	-	4,720
Investments	129,067	-	-	2,500	2,500	-	-	131,567
Investments in associates and joint venture	25,033	-	-	-	-	-	-	25,033
Investment property	9,130	-	-	-	-	-	-	9,130
Receivables	-	74	2,650	-	2,724	8,933	1,535	13,192
Funding to project companies	-	4,227	-	-	4,227	6,305	2,326	12,858
Other assets	-	6,957	1,267	5	8,229	954	63	9,246
Property and equipment	9,912	-	-	-	-	-	-	9,912
Total assets	173,142	21,881	3,917	2,505	28,303	16,192	3,924	221,561
Liabilities								
Islamic financing payables	-	13,011	-	-	13,011	-	-	13,011
Employee accruals	-	-	-	-	-	-	4,109	4,109
Other liabilities	-	301	1,196	737	2,234	580	1,149	3,963
Total liabilities	-	13,312	1,196	737	15,245	580	5,258	21,083
Net liquidity gap	173,142	8,569	2,721	1,768	13,058	15,612	(1,334)	213,536
Cumulative liquidity gap	173,142	181,711	184,432	186,200	199,258	214,870	213,536	-

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

a) Industry sector

30 June 2014	*Trading and Manufacturing USD '000*	*Banks and financial Institutions USD '000*	*Real estate USD '000*	*Dil and Gas USD '000*	*Health care USD '000*	*Technology USD '000*	*Shipping USD '000*	*Other USD '000*	*Total USD '000*
Assets									
Balances with banks	-	2,797	-	-	-	-	-	-	**2,797**
Placements with financial institutions	-	9,414	-	-	-	-	-	-	**9,414**
Investments	28,080	23,224	17,878	11,483	12,961	1,950	10,329	39,836	**145,741**
Investment in associates and joint venture accounted under the equity method	-	-	24,148	-	809	-	-	2,890	**27,847**
Investment property	-	-	-	-	-	-	-	-	**-**
Receivables	955	80	14,178	1,838	2,630	433	1,815	9,406	**31,335**
Funding to project companies	8,072	21	780	-	3,864	1,346	-	-	**14,083**
Other assets	386	-	25	72	3	26	5,572	2,817	**8,901**
Property and equipment	-	-	8,420	-	-	-	-	864	**9,284**
Total assets	**37,493**	**35,536**	**65,429**	**13,393**	**20,267**	**3,755**	**17,716**	**55,813**	**249,402**
Liabilities									
Islamic financing payable	-	20,188	-	-	-	-	-	-	**20,188**
Employee accruals	-	-	-	-	-	-	-	5,969	**5,969**
Other liabilities	-	-	-	-	-	-	-	7,227	**7,227**
Total liabilities	**-**	**20,188**	**-**	**-**	**-**	**-**	**-**	**13,198**	**33,384**
Commitments and contingencies	12,098	10,000	23,244	-	-	340	-	-	**45,682**
Equity of investment account holders	-	3,098	-	-	-	-	-	781	**3,879**

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

a) Industry sector (continued)

30 June 2013	*Trading and Manufacturing USD '000*	*Banks and financial Institutions USD '000*	*Real estate USD '000*	*Oil and Gas USD '000*	*Health care USD '000*	*Technology USD '000*	*Shipping USD '000*	*Other USD '000*	*Total USD '000*
Assets									
Balances with banks	-	5,903	-	-	-	-	-	-	5,903
Placements with financial institutions	-	4,720	-	-	-	-	-	-	4,720
Investments	22,371	24,542	13,918	13,048	10,160	1,887	11,329	34,312	131,567
Investment in associates and joint venture accounted under the equity method	-	1,656	20,919	-	1,066	-	-	1,392	25,033
Investment property	-	-	9,130	-	-	-	-	-	9,130
Receivables	699	2,284	4,184	-	20	-	1,815	4,190	13,192
Funding to project companies	6,609	7	543	-	3,915	1,784	-	-	12,858
Other assets	310	14	801	-	1	17	5,603	2,500	9,246
Property and equipment	-	-	8,723	-	-	-	-	1,189	9,912
Total assets	29,989	39,126	58,218	13,048	15,162	3,688	18,747	43,583	221,561
Liabilities									
Islamic financing payable	-	13,011	-	-	-	-	-	-	13,011
Employee accruals	-	-	-	-	-	-	-	4,109	4,109
Other liabilities	-	-	-	-	-	-	-	3,963	3,963
Total liabilities	-	13,011	-	-	-	-	-	8,072	21,083
Commitments and contingencies	12,098	10,000	14,553	-	-	-	-	-	36,651
Equity of investment account holders	-	3,116	-	-	-	-	-	624	3,740

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

(b) Geographic region

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

30 June 2014	GCC countries USD '000	Other MENA countries USD '000	Europe USD '000	Cayman / Americas USD '000	Global USD '000	Total USD '000
Assets						
Balances with banks	2,797	-	-	-	-	**2,797**
Placement with financial institutions	9,414	-	-	-	-	**9,414**
Investments	79,857	52,234	3,322	-	10,328	**145,741**
Investment in associates and joint venture accounted under the equity method	26,514	1,333	-	-	-	**27,847**
Investment property	-	-	-	-	-	**-**
Receivables	16,386	10,398	2,736	1	1,814	**31,335**
Funding to project companies	4,665	8,072	-	1,346	-	**14,083**
Other assets	1,536	1,793	-	-	5,572	**8,901**
Property and equipment	9,284	-	-	-	-	**9,284**
Total assets	**150,453**	**73,830**	**6,058**	**1,347**	**17,714**	**249,402**
Liabilities						
Islamic financing payable	20,188	-	-	-	-	**20,188**
Employee accruals	5,969	-	-	-	-	**5,869**
Other liabilities	7,227	-	-	-	-	**7,227**
Total liabilities	**33,384**	-	-	-	-	**33,384**
Commitments and contingencies	33,244	12,098	-	340	-	**45,882**
Equity of investment account holders	**3,879**	-	-	-	-	**3,879**

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

(b) Geographic region (continued)

30 June 2013	*GCC countries USD '000*	*Other MENA countries USD '000*	*Europe USD '000*	*Cayman / Americas USD '000*	*Global USD '000*	*Total USD '000*
Assets						
Balances with banks	5,903	-	-	-	-	5,903
Placement with financial institutions	4,720	-	-	-	-	4,720
Investments	68,498	50,240	1,500	-	11,329	131,567
Investment in associates and joint venture accounted under the equity method	23,641	1,392	-	-	-	25,033
Investment property	9,130	-	-	-	-	9,130
Receivables	3,397	3,087	2,650	2,244	1,814	13,192
Funding to project companies	4,466	6,609	-	1,783	-	12,858
Other assets	1,536	1,242	789	76	5,603	9,246
Property and equipment	9,912	-	-	-	-	9,912
Total assets	131,203	62,570	4,939	4,103	18,746	221,561
Liabilities						
Islamic financing payable	13,011	-	-	-	-	13,011
Employee accruals	4,109	-	-	-	-	4,109
Other liabilities	3,963	-	-	-	-	3,963
Total liabilities	21,083	-	-	-	-	21,083
Commitments and contingencies	24,553	12,098	-	-	-	36,651
Equity of investment account holders	3,740	-	-	-	-	3,740

35 FIDUCIARY ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group acting as the custodian of the assets and or making decisions on behalf of such entities in a fiduciary capacity. Assets that are held in such capacity are not included in these consolidated financial statements. At 30 June 2014, the Group had fiduciary assets under management of USD 993 million (30 June 2013: USD 925 million).

36 COMMITMENTS AND CONTINGENCIES

The Group has issued financial guarantees totalling USD 34.73 million (30 June 2013: USD 23.97 million) in respect of a number of its investee companies on which no losses are expected. The Group also had commitments to finance of USD 0.96 million (30 June 2013: USD 2.96 million) and commitments to invest of USD 10.00 million (30 June 2013: USD 10.00 million).

37 RISK MANAGEMENT AND CAPITAL ADEQUACY

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

The Risk Management Department independently identifies and evaluates risks in respect of each investment proposal, and periodically monitors and measures risks at investment and statement of financial position level. The Head of Risk Management is the secretary to the Risk Committee of the Board and has access to the Board of Directors.

The Group is exposed to credit risk, concentration risk, liquidity risk, and market risk (which comprises equity price risk, profit rate risk and currency risk), in addition to operational risk. The Group's approach to monitoring, measuring and managing these risks are discussed below.

a) Credit risk

Credit risk is the risk that the counterparty to a financial instrument does not discharge its obligations on due dates and cause the other party to incur a financial loss. The Group's credit risk arises mainly from the balances with banks, placements with financial institutions, receivable from investment banking services, funding to project companies and certain other assets like advances to acquire investments, project costs recoverable and other receivables.

The Group has put in place policies and procedures for managing credit risks to ensure that risks are accurately assessed, properly approved and regularly monitored. Formal credit limits are applied at counterparty and single obligor level. Overall exposures, including large exposures, are evaluated on a monthly basis to ensure a broad diversification of risk by counterparties and concentration limits by geography and industry.

Credit-related commitments risks

In the course of its business, the Group may extend to its investment project companies guarantees which may require the Group to make payments on their behalf. Such payments are collected from the projects based on the terms of the guarantee. They expose the Group to risks similar to financing contracts and these are mitigated by the same control processes and policies.

Maximum exposure to credit risk

The maximum exposure of credit risk on the financial assets of the Group is the carrying value of the financial assets as at 30 June 2014. The Group does not hold collateral against any of its exposures as at 30 June 2014 (30 June 2013: nil).

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

a) Credit risk (continued)

Maximum exposure to credit risk (continued)

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

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

Based on the estimates of recovery of these receivables, the Group released USD 1.8 million (2013: provided USD 2.9 million) of collective impairment privisions against its receivable exposure during the

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

	30 June 2014 USD '000	*30 June 2013 USD '000*
Receivables	**22,200**	15,612
Funding to project companies	**34,802**	40,117
Other assets	**7,813**	7,114
Total	**64,815**	62,843

b) Concentration risk
Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group seeks to manage its concentration risk by establishing geographic and industry wise concentration limits. The geographical and industry wise distribution of assets and liabilities are set out in note 34.

At 30 June 2014, the total credit exposure to individual counterparties which comprised 10% or more of the Group's equity was USD 43.03 million relating to one counterparty (30 June 2013: USD 38.01 million relating to three counterparties).

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

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

c) Liquidity risk (continued)

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

30 June 2014	*Gross undiscounted cash flows*					
	Up to 3 months USD '000	***3 to 6 months USD '000***	***6 months to 1 year USD '000***	***1 to 3 years USD '000***	***Over 3 years USD '000***	***Total USD '000***
Liabilities						
Islamic financing payables	10,014	-	-	11,963	-	**21,977**
Employee accruals	4,469	1,500	-	-	-	**5,969**
Other liabilities	220	1,906	395	3,050	1,656	**7,227**
Total financial liabilities	**14,703**	**3,406**	**395**	**15,013**	**1,656**	**35,173**
Commitments and contingencies	22,098	23,244	-	-	340	**45,662**
Equity of investment account holders	2	-	-	3,877	-	**3,879**

30 June 2013	*Gross undiscounted cash flows*					
	Up to 3 months USD '000	*3 to 6 months USD '000*	*6 months to 1 year USD '000*	*1 to 3 years USD '000*	*Over 3 years USD '000*	*Total USD '000*
Liabilities						
Islamic financing payables	13,011	-	-	-	-	13,011
Employee accruals	-	-	-	-	4,109	4,109
Other liabilities	301	1,196	737	580	1,149	3,963
Total financial liabilities	13,312	1,196	737	580	5,258	21,083
Commitments and contingencies	250	7,339	1,359	15,605	12,098	36,651
Equity of investment account holders	18	-	-	3,722	-	3,740

d) Market risk

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

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

d) Market risk (continued)

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

	30 June 2014	*30 June 2013*
Placements with financial institutions	**1.07%**	2.27%
Islamic financing payables	**2.16%**	2.20%

Sensitivity analysis
An analysis of the Group's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

	Effect on consolidated statement of income	
	30 June 2014 USD '000	*30 June 2013 USD '000*
100 bps parallel increase / (decrease)		
Placements with financial institutions	**± 94**	± 47
Funding to project companies	**± 141**	± 76
Islamic financing payables	**± 202**	± 130

Overall, profit rate risk positions are managed by the Group's Treasury, which uses placements from / with financial institutions to manage the overall position arising from the Group's activities.

(ii) Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risks on certain financing receivables and investments denominated in Kuwaiti Dinars, Euros and Great Britain Pounds. The Group seeks to manage currency risk by continually monitoring exchange rates and exposures.

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

	30 June 2014 USD '000	*30 June 2013 USD '000*
Kuwaiti Dinars	**3,293**	1,590
Great Britain Pounds	**6,058**	4,938
Euro	**11**	10

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

d) Market risk (continued)

(ii) Currency risk (continued)

The table below indicates the currencies to which the Group had significant exposure at 30 June 2014 and 30 June 2013 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the US Dollar with all other variables held constant on the consolidated statement of income (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity. A negative amount on the table below represents a potential net reduction in the consolidated statements of income or equity, while a positive amount reflects a net potential increase.

		30 June 2014		*30 June 2013*	
	Change in currency rates	**Effect on profit USD '000**	**Effect on equity USD '000**	*Effect on profit USD '000*	*Effect on equity USD '000*
Kuwaiti Dinars	+10%	**76**	**253**	1	158
Great Britain Pounds	+10%	**230**	**133**	344	150
Euro	+10%	**1**	**-**	1	-
Kuwaiti Dinars	-10%	**(329)**	**-**	(159)	-
Great Britain Pounds	-10%	**(363)**	**-**	(494)	-
Euro	-10%	**(1)**	**-**	(1)	-

(iii) Other price risk

The Group's available-for-sale equity investments carried at cost are exposed to risk of changes in equity values. Refer note 3 for significant accounting judgements and estimates in relation to impairment assessment of available-for-sale equity investments carried at cost. The Group manages exposure to other price risks by actively monitoring the performance of the equity securities.

(iv) Equity price risk on quoted equities

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the value of individual companies' shares. The effect on profit and equity, as a result of a change in fair value of trading equity instruments and equity instruments held as available-for-sale, due to a reasonably possible change in equity indices or net asset values, with all other variables held constant, is as follows:

		30 June 2014		*30 June 2013*	
		Effect on profit USD '000	**Effect on equity USD '000**	*Effect on profit USD '000*	*Effect on equity USD '000*
Trading securities	+1%	**9**	**-**	1	-
Available-for-sale	+1%	**-**	**25**	-	16
Trading securities	-1%	**(9)**		(1)	
Available-for-sale	-1%	**-**	**(25)**	-	(16)

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

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

f) Investment property price risk
Investment property price risk is the risk that the fair value of investment property decreases as a result of downfall in the real estate market. The investment property price risk exposure arises from Group's holding of land. The Group carries its investment in the land at cost less impairment.

g) Capital management
The Bank's regulator, the Central Bank of Bahrain (the CBB) sets and monitors capital requirements for the Group as a whole. The Group is required to comply with the provisions of the Capital Adequacy Module of the CBB (based on the Basel II and IFSB frameworks) in respect of regulatory capital. In implementing current capital requirements, the CBB requires the Group to maintain a prescribed ratio of total capital to risk-weighted assets. The Bank's operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group's regulatory capital position as at 30 June was as follows:

	30 June 2014 USD '000	*30 June 2013 USD '000*
Total risk weighted assets	**770,344**	679,863
Tier 1 capital	**320,215**	323,691
Tier 2 capital	**17,135**	110
Total regulatory capital	**337,350**	323,801
Total regulatory capital expressed as a percentage of total risk weighted assets	**43.79%**	47.63%
Minimum requirement	**12%**	12%

Tier 1 capital comprises share capital, share premium, statutory reserve and retained earnings, gross unrealised gains arising from fair valuing available-for-sale equity securities (subject to 55% haircut), minority interest in consolidated subsidiaries less gross unrealised loss arising from fair valuing equities and 50% of excess over permitted large exposure limit.

Tier 2 capital comprises unrealised gains arising from fair valuing equity securities (subject to 55% haircut) and 50% of excess over permitted large exposure limit. Certain adjustments are made to IFRS and AAOIFI based results and reserves, as prescribed by the CBB.

The Bank has complied with all externally imposed capital requirements throughout the period.

38 FAIR VALUE

Fair value hierarchy

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

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

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

30 June 2014	***Level 1 USD 000***	***Level 2 USD 000***	***Level 3 USD 000***	***Total USD 000***
Held for trading	897	-	-	**897**
Fair value through profit or loss	-	-	92,760	**92,760**
Available-for-sale	2,528	-	-	**2,528**
	3,425	-	**92,760**	**96,185**

30 June 2013	*Level 1 USD 000*	*Level 2 USD 000*	*Level 3 USD 000*	*Total USD 000*
Held for trading	93	-	-	93
Fair value through profit or loss	-	-	84,466	84,466
Available-for-sale	1,577	13	-	1,590
	1,670	13	84,466	86,149

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value.

	Year ended 30 June 2014 USD 000	*1 January 2012 to 30 June 2013 USD 000*
At 1 July / 1 January	**84,466**	76,050
Fair value losses recognised in the consolidated statement of income - net	**(2,250)**	(7,300)
Investments acquired during the year / period - net	**10,544**	15,716
At 30 June	**92,760**	84,466

38 FAIR VALUE (continued)

Determining fair value under Level 3 includes use of valuation techniques such as the discounted cash flow model. The future cash flows have been estimated by the management, based on information and discussion with representatives of the management of the investee companies, and based on the latest available audited and un-audited financial statements. Cash flows are typically projected for three years and then a terminal value has been estimated using a combination of value based on forward multiples and perpetual growth models applied on the cash flows of the last year of the estimate. The discount rates used for computing the present value of future cash flows range from 8 % – 17% and growth rates used range from 2% - 6%. The discount rates have been arrived at after considering the risk free rate, expected market premium, country risk and systematic risk underlying each investee company. The growth rates are based on the GDP growth rates of the economic areas of the investees. The Group has also made use of illiquidity and marketability discounts where considered appropriate.

The potential income effect of 1% increase in the discount rates, which is a key variable used in the valuation technique, would decrease the fair values by approximately USD 941 thousand, whereas a 1% decrease in the discount rate would increase the fair values by approximately USD 971 thousand. The potential income effect of 0.5 times change, on either side, in the market multiples, which is a key variable used in the valuation technique, would increase the fair values by approximately USD 2,732 thousand or reduce the fair values by approximately USD 2,732 thousand respectively.

39 COMPARATIVE FIGURES

In the Group's audited consolidated financial statements for the year ended 30 June 2014 certain comparative amounts have been reclassified for more meaningful presentation of the consolidated statements of financial position and income which did not result in any changes to the previously reported financial position or income.