

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 2016

Report of the Shari'ah Supervisory Board for period from 01/07/2015 to 30/06/2016

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

In compliance with the letter of appointment, we are required to submit the following report:

The Shari'ah Supervisory Board of Venture Capital Bank has reviewed all the business and investments of the Bank in its meetings for the period from 01/07/2015 to 30/06/2016.

It has studied and discussed, with the Bank's management, the financial statements and the income statement for the period from 01/07/2014 to 30/06/2016.

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

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

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
Shariah Member

Nidham Bin Mohammed Saleh Yaqoobi
Chairman, Shariah Supervisory Board

Issa Zaki
Shariah Member

Executed on Thursday, 27/12/1437 H, corresponding to the 29/09/2016



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 2016, upon taking over as Chairman subsequent to the year-end following the resignation of Dr. Ghassan Al Sulaiman during August 2016, due to his appointment to a government position in Saudi Arabia as Governor of the General Authority of Small and Medium Enterprises. It has been a distinct honour to have worked closely alongside Dr. Ghassan since the Bank's inception, and I wish him every success in his new position. I am honoured to have been elected the new Chairman, and pledge my best efforts to guiding and sustaining the development of VCBank.

I am pleased to report that, with the grace of God, we maintained the Bank's recent trend of profitability, and continued to grow our investment activities. Significantly, this was achieved against another challenging period of intense economic volatility and market uncertainty.

VCBank posted another strong financial performance in FY 2016. Total revenue more than doubled to USD 36.6 million compared with USD 16.5 million the previous year; while total expenses were USD 16.2 million versus USD 12.6 million for FY 2015. Net income from investment banking activities was the largest contributor to this growth at USD 31.1 million compared with USD 13.7 million a year earlier. The Bank posted a net profit in FY 2016 of USD 9.3 million compared with USD 14.1 million for the previous year, equating to a return on net paid-up capital of 4.9 per cent. It should be noted that these results were after recognising fair value losses and impairment provisions of USD 20.5 million, which were booked as a prudent measure in light of prevailing market conditions.

The Bank continued to maintain a strong capital base, with total balance sheet assets of USD 334.3 million as at 30 June 2016 compared with USD 250.8 million at the end of the previous year. At the end of FY 2016, shareholders' equity stood at USD 224.3 million versus USD 219.5 million at the end of FY 2015. VCBank's capital adequacy ratio was 19.8 per cent, higher than the 12.5 per cent minimum requirement of the Central Bank of Bahrain. Total assets under management increased to USD1.492 billion as at 30 June 2016 compared with USD1.274 billion at the end of the previous year.

These financial results reflect the success of our business activities during the year, during which we concluded four new investment transactions, including initial forays into the US

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multifamily housing sector and the Turkish café / patisserie market. We expanded within the regional and global markets, and have further strengthened and diversified our investment portfolio; by offering clients innovative and attractive investment opportunities. In addition, we concluded two investment exits, including VCBank's first full private equity exit. At the same time, we made sound progress with several of our key existing investments. The Bank has developed a strong pipeline of potential deals and exits, which we hope, God willing, to conclude during fiscal year 2017.

In February 2016, the Board of Directors and the Executive Management team met to review and realign the Bank's strategy and business model in light of ever-changing economic and market conditions. The primary focus will be on private equity, followed by recurring income-yielding real estate investments, with a selective and prudent approach to venture capital and business development opportunities. Our strategy is underpinned by adoption of the highest standards of corporate governance, risk management and Shari'ah compliance, and an enduring commitment to corporate social responsibility.

VCBank continues to rank among the most active investment banks in the region, with a strong pipeline of deals and proposed exits. Such encouraging progress could not have been achieved without the continued loyalty of our shareholders and clients, along with the strategic guidance of our Board of Directors and Executive Management, together with the professionalism of our investment and wealth management teams, and the dedication of our corporate support functions.

There were a number of changes to the composition of the Board of Directors during the year. I would like to thank the Members who resigned for their valuable commitment and contribution to the Bank during their respective terms of office. In turn, I welcome the new Members, who bring with them a wealth of regional business experience and expertise that will be of great benefit to the Board, and will help in improving the performance of VCBank in the coming years.

Looking ahead, fiscal year 2017 will be another highly-challenging year, marked by continued oil price and market volatility; further economic and fiscal reforms by MENA governments to diversify revenues; and continued geo-political turmoil in certain parts of the region. However, based on our strong financial and business performance in FY 2016, we have a cautiously optimistic outlook for VCBank in the immediate future. As we prepare to enter our second decade of operations, the Board has full confidence in its ability, experience and competence through full and continuous cooperation with the Executive Management and Management

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team to respond proactively to the challenges of a new regional economic reality.

In conclusion, on behalf of the Board of Directors, I extend my sincere thanks and appreciation to His Majesty the King of Bahrain, His Royal Highness the Prime Minister, and His Royal Highness the Crown Prince and First Deputy Prime Minister, for their wise leadership and reform programme, and their encouragement for the Islamic banking sector. Grateful acknowledgements are also due to the Central Bank of Bahrain, the Ministry of Industry 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 ongoing 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.

A handwritten signature in blue ink, appearing to be 'Abdulfatah Mohammed Rafie Marafie'.

Abdulfatah Mohammed Rafie Marafie
Chairman of the Board



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

Report on the consolidated financial statements

We have audited the accompanying consolidated statement of financial position of Venture Capital Bank B.S.C. (c) (the "Bank") and its subsidiaries (the "Group") as of 30 June 2016, and the related consolidated statements of income, changes in equity, cash flows and changes in off-balance sheet equity of investment account holders for the year then ended, and a summary of significant accounting policies and other explanatory information. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

Opinion

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 30 June 2016, the results of its operations, its cash flows, changes in equity and changes in off-balance sheet equity of investment account holders for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

**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 during the year ended 30 June 2016 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.




Partner's registration no: 45
23 November 2016
Manama, Kingdom of Bahrain

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Note	30 June 2016 USD '000	30 June 2015 USD '000
ASSETS			
Balances and placements with banks	8	8,282	2,724
Investments	9	188,255	163,045
Investments in associates and joint venture accounted under the equity method	10	28,046	27,816
Murabaha financing to investee companies	11	40,993	-
Receivables	12	38,030	27,345
Funding to project companies	13	4,231	13,860
Other assets	14	18,030	7,197
Property and equipment	15	8,434	8,833
TOTAL ASSETS		334,301	250,820
LIABILITIES			
Islamic financing payables	16	101,734	20,011
Employee accruals		3,746	6,131
Other liabilities	17	4,527	5,211
Total liabilities		110,007	31,353
EQUITY			
Share capital	18	190,000	190,000
Unvested shares of employee share ownership plan	18	-	(10,000)
Statutory reserve	18	5,859	4,931
Foreign currency translation reserve		(127)	(175)
Retained earnings		28,562	34,711
Total equity		224,294	219,467
TOTAL LIABILITIES AND EQUITY		334,301	250,820
OFF BALANCE SHEET ITEMS			
Equity of investment account holders		3,756	3,833


 Abdulfatah Mohd. Rafie Marafie
 Chairman


 Abdullatif M. Janahi
 Board Member
 and Chief Executive Officer

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

Venture Capital Bank B.S.C. (c)
CONSOLIDATED STATEMENT OF INCOME
For the year ended 30 June 2016

	Note	30 June 2016 USD '000	30 June 2015 USD '000
REVENUE			
Income from investment banking services	19	31,126	13,732
Finance income	20	128	212
Dividend income		837	304
Rental and other income	21	4,550	2,285
Total revenue		36,641	16,533
OTHER GAINS			
Fair value (losses) / gains on investments at fair value through profit or loss	22	(17,508)	1,673
Gains from sale of investments	23	6,397	7,117
Total income		25,530	25,323
EXPENSES			
Staff costs	24	8,066	7,263
Travel and business development expenses		575	509
Legal and professional fees		903	1,263
Finance expense	20	3,047	664
Depreciation	15	477	507
Other expenses	26	3,101	2,392
Total expenses		16,169	12,598
PROFIT BEFORE IMPAIRMENT PROVISIONS AND SHARE OF LOSSES OF ASSOCIATES AND JOINT VENTURE			
		9,361	12,725
Impairment provisions charged	25	(3,005)	(3,703)
Recovery of impaired receivables	25	3,690	5,560
Share of losses of associates and joint venture - net	10	(402)	(524)
PROFIT BEFORE BOARD OF DIRECTORS' REMUNERATION		9,644	14,058
Board of Directors' remuneration	28	(365)	-
NET PROFIT FOR THE YEAR AFTER BOARD OF DIRECTORS' REMUNERATION		9,279	14,058


Abdulfatah Mohd. Rafie Marafie
Chairman


Abdullatif M. Janahi
Board Member
and Chief Executive Officer

Venture Capital Bank B.S.C. (c)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2016

	Share capital USD '000	Share ownership plan USD '000	Statutory reserve USD '000	Investment fair value reserve USD '000	Foreign currency translation reserve USD '000	Retained earnings USD '000	Total USD '000
Balance at 1 July 2015	190,000	(10,000)	4,931	-	(175)	34,711	219,467
Full cancellation of ESOP shares and issue of bonus shares	-	10,000	-	-	-	(10,000)	-
Dividends for 2015	-	-	-	-	-	(4,500)	(4,500)
Net profit for the year	-	-	-	-	-	9,279	9,279
Transfer to statutory reserve	-	-	928	-	-	(928)	-
Foreign currency translation difference on investment in an associate	-	-	-	-	48	-	48
Balance at 30 June 2016	190,000	-	5,859	-	(127)	28,562	224,294
Balance at 1 July 2014	190,000	(10,000)	3,525	1,196	-	31,297	216,018
Dividends for 2014	-	-	-	-	-	(9,238)	(9,238)
Net profit for the year	-	-	-	-	-	14,058	14,058
Transfer to statutory reserve	-	-	1,406	-	-	(1,406)	-
Foreign currency translation difference on investment in an associate	-	-	-	-	(175)	-	(175)
Cumulative changes in fair value of available-for-sale investments	-	-	-	(1,196)	-	-	(1,196)
Balance at 30 June 2015	190,000	(10,000)	4,931	-	(175)	34,711	219,467

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2016

	Note	30 June 2016 USD '000	30 June 2015 USD '000
OPERATING ACTIVITIES			
Net profit for the year		9,279	14,058
Adjustments for non-cash items:			
Gain on investments	23	(6,397)	(7,117)
Share of results of associates and joint venture accounted under the equity method	10	402	524
Impairment provisions charged - net	25	3,005	3,703
Depreciation	15	477	507
Dividend income		(837)	(304)
Fair value losses (gains) on investments at fair value through profit or loss - net	22	17,508	(1,673)
Operating profit before changes in operating assets and liabilities		23,437	9,698
Changes in operating assets and liabilities:			
Investments		(36,713)	(11,435)
Investments in associates and joint venture accounted under the equity method		(632)	(668)
Murabaha financing to investee companies		(40,993)	-
Receivables		(11,529)	3,520
Funding to project companies		9,033	(1,077)
Other assets		(11,306)	802
Employee accruals		(2,385)	(159)
Other liabilities		(684)	(2,016)
Net cash used in operating activities		(71,772)	(1,335)
INVESTING ACTIVITIES			
Dividends received		137	1,173
Dividends paid	18	(4,500)	(8,917)
Property and equipment - net	15	(78)	(56)
Net cash used in investing activities		(4,441)	(7,800)
FINANCING ACTIVITY			
Islamic financing payables		81,723	(177)
Net cash from (used in) financing activity		81,723	(177)
Foreign currency translation adjustments		48	(175)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		5,558	(9,487)
Cash and cash equivalents at beginning of the year		2,724	12,211
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		8,282	2,724
Comprising:			
Balances in current and call accounts	8	8,155	2,314
Short-term placements	8	127	410
		8,282	2,724

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

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

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

For the year ended 30 June 2016

2016	Balance as at 1 July 2015 USD '000	Movements during the year				Balance as at 30 June 2016 USD '000
		Distribution USD '000	Fair value movement / (impairment) USD '000	Net income USD '000	Bank's fees as an agent USD '000	
GCC Pre IPO Fund	3,833	(45)	(52)	20	-	3,756
2015	Balance as at 1 July 2014 USD '000	Distribution USD '000	Fair value movement / (impairment) USD '000	Net income USD '000	Bank's fees as an agent USD '000	Balance as at 30 June 2015 USD '000
GCC Pre IPO Fund	3,879	(29)	135	(152)	-	3,833
Investment in equities					2016	2015
Dividends receivable					3,754	3,806
Balances with banks					-	25
Total as at 30 June					2	2
					3,756	3,833

The GCC Pre-IPO Fund targets investments in selected GCC equities in the pre-IPO stage with the primary objective of benefiting from the potential market gains expected to arise from their IPOs. 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.

As at 30 June 2016

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, Manama, Kingdom of Bahrain.

Activities

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

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

These consolidated financial statements were approved by the Bank's Board of Directors on 4 July 2016.

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 Organization (AAOIFI) for Islamic Financial Institutions and in conformity with Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives and the terms of the Bank's memorandum and articles of association. In accordance with the requirements of AAOIFI, for matters which are not covered by AAOIFI standards, the Group uses relevant International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB") provided it does not conflict with the Shari'a Rules and Principles and the conceptual framework of AAOIFI.

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 statements of the subsidiaries are prepared using consistent accounting policies.

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

All intra-group balances, transactions, income and expenses and profit and losses are eliminated in full.

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

3 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 completion of the project and the net realisable value of any underlying assets. These estimates are based on assumptions about a number of factors, and actual results may differ, resulting in future changes to the allowance.

Impairment of available-for-sale investments

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

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Consolidation of special purpose entities (SPEs)

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

4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

Standard issued and effective for adoption from 1 January 2015

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous year.

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 2015 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.

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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Investments in real estate

Under FAS 26 Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, an entity has the option to adopt either the fair value model or the cost model and shall apply that policy consistently to all of its investment in real estate. The Group has opted for the cost model.

(d) Investments

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

(i) Classification

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

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

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

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

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

(ii) Initial recognition

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

(iii) Subsequent measurement

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Investments (continued)

(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.

(e) Other financial assets carried at amortised cost

All other financial assets are classified as loans and receivables and are carried at amortised cost less 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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investment in associates accounted under the equity method

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

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

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

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

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

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

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

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

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

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) 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.

(i) 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.

(j) 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

(k) 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)

(k) 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.

(l) 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.

(m) Financial guarantees

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

(n) Dividends

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

(o) 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.

(p) 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:

As at 30 June 2016

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) 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.

(q) 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.

(r) 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.

(s) Employee benefits

(i) Short-term benefits

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

(ii) Post employment benefits

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Employee benefits (continued)

(iii) Share based payment transactions

The Group had 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. The Group cancelled the scheme during the current year (refer note 27).

(t) 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.

(u) 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.

(v) 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.

(w) 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.

(x) 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.
Lime Restaurant Management and Catering Services Co. W.L.L.	2007	Kingdom of Bahrain	To own, operate and manage restaurant and catering services companies (inactive and liquidated subsequent to the year end).

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As at 30 June 2016

6 INVESTMENT IN SUBSIDIARIES (continued)

Name of subsidiary	Year of incorporation	Country of incorporation	Principal activities
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	This held employee share ownership plan "ESOP" shares on behalf of the employees and has now been cancelled as explained in note 27.

7 CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

At 30 June 2016

	<i>Fair value through profit or loss</i> USD '000	<i>Available-for-sale</i> USD '000	<i>Amortised cost / cost</i> USD '000	<i>Total</i> USD '000
ASSETS				
Balances and placements with banks	-	-	8,282	8,282
Investments	123,020	65,235	-	188,255
Murabaha financing to investee companies	-	-	40,993	40,993
Receivables	-	-	38,030	38,030
Funding to project companies	-	-	4,231	4,231
Other assets	-	-	16,255	16,255
TOTAL FINANCIAL ASSETS	123,020	65,235	107,791	296,046
LIABILITIES				
Islamic Financing Payables	-	-	101,734	101,734
Other liabilities	-	-	1,473	1,473
TOTAL FINANCIAL LIABILITIES	-	-	103,207	103,207
OFF BALANCE SHEET ITEMS				
Equity of investment account holders	-	3,754	2	3,756

At 30 June 2015

	<i>Fair value through profit or loss</i> USD '000	<i>Available-for-sale</i> USD '000	<i>Amortised cost / cost</i> USD '000	<i>Total</i> USD '000
ASSETS				
Balances with banks	-	-	2,724	2,724
Investments	108,928	54,117	-	163,045
Receivables	-	-	27,345	27,345
Funding to project companies	-	-	13,860	13,860
Other assets	-	-	6,934	6,934
TOTAL FINANCIAL ASSETS	108,928	54,117	50,863	213,908
LIABILITIES				
Islamic Financing Payables	-	-	20,011	20,011
Other liabilities	-	-	2,125	2,125
TOTAL FINANCIAL LIABILITIES	-	-	22,136	22,136
OFF BALANCE SHEET ITEMS				
Equity of investment account holders	-	3,806	27	3,833

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As at 30 June 2016

8 BALANCES AND PLACEMENTS WITH BANKS

	<i>30 June 2016 USD '000</i>	<i>30 June 2015 USD '000</i>
Balances in current and call accounts	8,155	2,314
Short-term placements	133	411
Less: Deferred profits	(6)	(1)
	<u>8,282</u>	<u>2,724</u>

Short-term placements comprise Mudaraba and Wakala deals entered into for cash management purposes with locally incorporated Islamic banks of good credit standing. These carry annual profit rates ranging between 1.25 % and 2.5 % (2015: 1.60% and 2.50%) and mature within 90 days of initial placement.

9 INVESTMENTS

	<i>30 June 2016 USD '000</i>	<i>30 June 2015 USD '000</i>
Investments at fair value through profit or loss		
Quoted equities held for trading	5,038	2,816
Unquoted:		
Equities	103,748	93,376
Fund	14,234	12,736
	<u>123,020</u>	<u>108,928</u>
Available-for-sale investments ("AFS")		
Quoted equities	1,380	1,472
Unquoted equities	48,915	51,645
Short term liquidity certificates	14,940	1,000
	<u>65,235</u>	<u>54,117</u>
	<u>188,255</u>	<u>163,045</u>

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

The unquoted AFS investments and short term liquidity certificates comprise investments in the following market segments:

	<i>30 June 2016 USD '000</i>	<i>30 June 2015 USD '000</i>
Real estate projects	32,768	23,260
Business development projects	14,152	13,570
Healthcare projects	14,080	14,080
Financial services	2,855	1,735
	<u>63,855</u>	<u>52,645</u>

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

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As at 30 June 2016

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:

<i>Name of associate</i>	<i>Nature of business</i>	<i>Country of incorporation</i>	<i>% holding</i>	
			<i>30 June 2016</i>	<i>30 June 2015</i>
Mozon Holding SA	Investment development	Kingdom of Morocco	20	20
German Medical Centre Bahrain	Specialist orthopedic hospital	Kingdom of Bahrain	30	30
Dari Holdings	Real estate development	Kingdom of Bahrain	43	43
Venture Capital Fund	Small & medium enterprises investment fund	Kingdom of Bahrain	30	30

<i>Name of joint venture</i>	<i>Nature of business</i>	<i>Country of incorporation</i>	<i>% holding</i>	
			<i>30 June 2016</i>	<i>30 June 2015</i>
Global Real Estate Co. W.L.L.	Real estate development	Kingdom of Bahrain	50	50

	<i>30 June 2016</i>	<i>30 June 2015</i>
	<i>USD '000</i>	<i>USD '000</i>
The carrying value comprises:		
Associates	3,331	3,110
Joint venture	24,715	24,706
	28,046	27,816

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

	<i>30 June 2016</i>	<i>30 June 2015</i>
	<i>USD '000</i>	<i>USD '000</i>
At 1 July	27,816	27,847
Capitalisation of funding*	584	668
Foreign currency differences	48	(175)
Share of losses of associates and joint venture, net	(402)	(524)
At 30 June	28,046	27,816

* During the current and previous years, 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.

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

	<i>30 June 2016</i>	<i>30 June 2015</i>
	<i>USD '000</i>	<i>USD '000</i>
Total assets	80,539	86,730
Total liabilities	61,114	28,362
Total revenues for the year	1,080	5,974
Total net loss for the year	(508)	(2,613)

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As at 30 June 2016

11 MURABAHA FINANCING TO INVESTEE COMPANIES

	<i>30 June 2016 USD '000</i>	<i>30 June 2015 USD '000</i>
Financing to an investee companies in the following sectors:		
Shipping	34,750	-
United Kingdom real estate	6,243	-
At 30 June	40,993	-

These represent financing support extended by the Group to facilitate the debt restructuring and repayments of the investees with external lenders in the form of commodity murabaha contracts at profit rates of 6% p.a. Financing to an investee in the shipping sector is fully secured by pledge of underlying assets of the investee to the Group.

12 RECEIVABLES

	<i>30 June 2016 USD '000</i>	<i>30 June 2015 USD '000</i>
Receivable from investment banking services	32,984	35,762
Receivable on sale of investment	9,167	-
	42,151	35,762
Less: Specific impairment provision	(4,121)	(8,417)
	38,030	27,345

Refer to note 25 for movement in impairment provision.

13 FUNDING TO PROJECT COMPANIES

	<i>30 June 2016 USD '000</i>	<i>30 June 2015 USD '000</i>
Gross funding	19,780	31,543
Less: Impairment provision	(15,549)	(17,683)
	4,231	13,860

These relate to fundings provided to various projects and investments promoted by the Group. The financing facilities are generally free of profit and do not have specific terms of repayment, and are expected to be recovered in the course of project development or on realisation of cash flows from sale of the underlying assets or through their operations. Impairment provision have been recorded where necessary to reflect delays and doubts over recoverability based on the Group's regular impairment assessments. Refer to note 25 for movement in impairment provision.

14 OTHER ASSETS

	<i>30 June 2016 USD '000</i>	<i>30 June 2015 USD '000</i>
Advances to acquire investments	13,616	3,995
Project costs recoverable	1,899	2,440
Dividend receivable	824	124
Other receivables	4,320	2,728
Less: Specific impairment provision	(2,629)	(2,090)
	18,030	7,197

Refer to note 25 for movement in impairment provision.

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15 PROPERTY AND EQUIPMENT

	<i>Building</i> USD '000	<i>Office equipment</i> USD '000	<i>Furniture and fixtures</i> USD '000	<i>Motor vehicles</i> USD '000	<i>Total</i> USD '000
Cost					
At 1 July 2015	10,098	1,712	4,697	483	16,990
Additions during the year	-	59	-	19	78
At 30 June 2016	10,098	1,771	4,697	502	17,068
Depreciation					
At 1 July 2015	1,532	1,629	4,632	364	8,157
Charge for the year	278	40	65	94	477
At 30 June 2016	1,810	1,669	4,697	458	8,634
Net book value at 30 June 2016	8,288	102	-	44	8,434
Net book value at 30 June 2015	8,566	83	65	119	8,833

16 ISLAMIC FINANCING PAYABLES

		<i>30 June 2016</i> USD '000	<i>30 June 2015</i> USD '000
Medium term Islamic financing payables	16.1	70,687	-
Short term Islamic financing payables	16.2	31,047	20,011
		101,734	20,011

16.1 This represents a medium term wakala financing raised during the year at an annual profit rate of 6%, with bullet repayment at the end of 4 years with an early repayment option for the lender after 2 years.

16.2 These consist of short-term wakala Islamic financing payables from locally incorporated Islamic banks with maturities of not more than one month. These Islamic financing payables carry annual profit rates of 2.5% to 3.5% (2015: 2.5%).

17 OTHER LIABILITIES

	<i>30 June 2016</i> USD '000	<i>30 June 2015</i> USD '000
Accounts payable	1,473	2,125
Provisions and accruals	1,511	1,386
Deferred income	1,351	1,551
Other	192	149
	4,527	5,211

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18 SHARE CAPITAL

	30 June 2016 USD '000	30 June 2015 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 (2015: 190,000,000 shares of USD 1 each)	190,000	190,000

a) 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 928 thousand (2015: USD 1,406 thousand) has been transferred to a statutory reserve. 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.

b) 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.

c) Unvested shares of Employee Share Ownership Plan

Following necessary regulatory approvals, at the Extraordinary General Meeting ("EGM") of the shareholders held on 8 December 2015, the shareholders resolved to unwind the Bank's Employee Share Ownership Plan "ESOP" and cancel the shares allocated to the ESOP of USD 10 million and repay participants their entitlements.

d) Cash and share dividends

Following the approval of the Bank's shareholders at the Annual General Assembly held on 8 December 2015 and necessary regulatory approvals, the Group distributed a bonus share dividend of USD 10 million and a cash dividend of USD 4.5 million representing 2.5 cents per share (2015: cash dividend of USD 9.24 million representing 5 cents per share).

19 INCOME FROM INVESTMENT BANKING SERVICES

	30 June 2016 USD '000	30 June 2015 USD '000
Investment structuring income	26,350	9,954
Investment management and arrangement fees	4,776	3,778
	31,126	13,732

20 FINANCE INCOME AND EXPENSE

	30 June 2016 USD '000	30 June 2015 USD '000
Finance income		
Income from placements with financial institutions	128	212
Finance expense		
Profit on Islamic financing payables	(3,047)	(664)
Net finance expense	(2,919)	(452)

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21 RENTAL AND OTHER INCOME

	<i>30 June 2016 USD '000</i>	<i>30 June 2015 USD '000</i>
Rental and property management income	1,901	1,928
Collective impairment provision released (note 25)	1,306	-
ESOP unwinding write back (note 27)	416	-
Other income	927	357
	<u>4,550</u>	<u>2,285</u>

Other income for 2016 mainly comprises liquidity program certificate profit, project cost recoveries and write backs of excess accruals no longer required (2015: cost recoveries and write back of excess accruals).

22 FAIR VALUE (LOSSES) / GAINS ON INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>30 June 2016 USD '000</i>	<i>30 June 2015 USD '000</i>
Trading securities	(459)	(327)
Investments designated at fair value through profit or loss - net	(17,049)	2,000
	<u>(17,508)</u>	<u>1,673</u>

23 GAINS FROM SALE OF INVESTMENTS

	<i>30 June 2016 USD '000</i>	<i>30 June 2015 USD '000</i>
Gain on sale of available-for-sale investments - net	4,020	7,117
Gain on sale of investment designated at fair value through profit or loss	2,377	-
	<u>6,397</u>	<u>7,117</u>

24 STAFF COSTS

	<i>30 June 2016 USD '000</i>	<i>30 June 2015 USD '000</i>
Salaries and benefits	7,625	6,827
Social insurance expenses	408	428
Other staff expenses	33	8
	<u>8,066</u>	<u>7,263</u>

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25 IMPAIRMENT PROVISIONS CHARGED

	Specific impairment provisions relating to					Collective impairment provision* (Note 13) USD '000	Total USD '000
	Investments in associates and JV USD '000	Receivables (Note 12) USD '000	Funding to project companies (Note 13) USD '000	Other assets (Note 14) USD '000			
30 June 2016							
Provision at the beginning of the year	(20,903)	(8,417)	(15,125)	(2,090)	(2,558)	(54,266)	
Charge for the year	(1,092)	(844)	(596)	(473)	-	(3,005)	
Transfers	-	700	1,534	(124)	(2,110)	-	
Impairment provisions charged	(1,092)	(144)	938	(597)	(2,110)	(3,005)	
Recovery during the year	-	1,632	-	58	2,000	3,690	
Release of provision related to investments derecognised	4,029	8	-	-	-	4,037	
Release of collective provision reapplied to specific provision	-	-	-	-	1,306	1,306	
Write-offs	-	2,800	-	-	-	2,800	
	2,937	4,296	938	(539)	1,196	8,828	
Provision at the end of the year	(17,966)	(4,121)	(14,187)	(2,629)	(1,362)	(45,438)	

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

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As at 30 June 2016

25 IMPAIRMENT PROVISIONS CHARGED

	Specific impairment provisions relating to					Collective impairment provision* (Note 13) USD '000	Total USD '000
	Investments in associates and JV USD '000	Receivables (Note 12) USD '000	Funding to project companies (Note 13) USD '000	Other assets (Note 14) USD '000			
30 June 2015							
Provision at the beginning of the period	(28,740)	(10,251)	(18,711)	(2,335)	(2,008)	(67,218)	
Charge for the year	(1,900)	(470)	(750)	(33)	(550)	(3,703)	
Release from collective impairment provision	(400)	-	520	(120)	-	-	
Impairment provisions charged	(2,300)	(470)	(230)	(153)	(550)	(3,703)	
Recovery during the year	-	1,704	3,816	40	-	5,560	
Release of provision related to investments derecognised	10,137	-	-	-	-	10,137	
Write-offs	-	600	-	358	-	958	
	7,837	1,834	3,586	245	(550)	12,952	
Provision at the end of the year	(20,903)	(8,417)	(15,125)	(2,090)	(2,558)	(54,266)	

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26 OTHER EXPENSES

	30 June 2016 USD '000	30 June 2015 USD '000
Rent and office expenses	1,739	1,682
Publicity, conferences and promotion	162	224
Board of directors and Shari'a supervisory board fees and expenses	571	431
Exchange loss	574	-
Other	55	55
	<u>3,101</u>	<u>2,392</u>

27 EMPLOYEE SHARE OWNERSHIP PLAN

The Group had set up an employees' share ownership plan (ESOP) in 2007 under which employees were offered units in the ESOP for purchase at the book value of the equity shares of the Bank determined as on the grant date. However, consequent to a revision of the Bank's remuneration policies undertaken during 2015 and following recommendations of a study by an independent consultant engaged to undertake a review thereof in the light of the CBB sound remuneration regulations, the Bank's shareholders at the EGM held on 8 December 2015 resolved to cancel the ESOP and repay participants their entitlements.

Consequent to the EGM resolution, the 10 million unvested shares of the ESOP have been cancelled, and all participants have been repaid their full entitlements. Procedures for the cancellation of VC Bank ESOP SPC the special purpose vehicle that held the shares of the ESOP are currently in process.

Movement in the ESOP units during the year:

The following table illustrates the number and changes in ESOP units and liabilities during the year.

	30 June 2016		30 June 2015	
	No of units (thousands)	ESOP Liabilities USD '000	No of units (thousands)	ESOP Liabilities USD '000
Balance at beginning of year	6,423	3,301	6,423	3,013
Cancelled during the year	(6,423)	-	-	-
Dividends credited	-	-	-	288
Settlement of participants dues	-	(2,885)	-	-
Write back	-	(416)	-	-
Balance at end of year	<u>-</u>	<u>-</u>	<u>6,423</u>	<u>3,301</u>

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.

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28 RELATED PARTY TRANSACTIONS (continued)

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

	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
30 June 2016					
Assets					
Balances and placements with banks	-	-	733	-	733
Investments	40,815	-	14,234	-	55,049
Investments in associates and joint venture	28,046	-	-	-	28,046
Murabaha financing to investee companies	34,750	-	-	-	34,750
Receivables	841	-	-	-	841
Funding to project companies	3,862	-	-	-	3,862
Other assets	3,254	-	706	-	3,960
Liabilities					
Employee accruals	-	750	-	-	750
Other liabilities	-	-	302	-	302
Income					
Income from investment banking services	-	-	2,920	-	2,920
Share of loss of associates and joint venture accounted for using the equity method	(402)	-	-	-	(402)
Other income	-	-	751	-	751
Expenses (excluding compensation for key management personnel)					
Impairment allowances against investments	-	-	-	-	-
Impairment allowances against receivables	1,182	-	-	-	1,182
Commitments and contingencies	20,829	-	-	-	20,829

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28 RELATED PARTY TRANSACTIONS (continued)

	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
30 June 2015					
Assets					
Balances and placements with banks	-	-	1,705	-	1,705
Investments	-	-	43,395	-	43,395
Investments in associates and joint venture	27,816	-	-	-	27,816
Receivables	-	-	4,401	-	4,401
Funding to project companies	4,458	-	3,403	-	7,861
Other assets	25	-	259	-	284
Liabilities					
Employee accruals	-	1,698	-	-	1,698
Other liabilities	-	-	-	-	-
Income					
Income from investment banking services	316	-	-	-	316
Share of loss of associates and joint venture accounted for using the equity method	(524)	-	-	-	(524)
Other income	-	-	2,033	-	2,033
Realised gain on sale of investment property	-	-	-	-	-
Expenses (excluding compensation for key management personnel)					
Impairment allowances against receivables	750	-	-	-	750
Commitments and contingencies					
	40	-	-	-	40

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28 RELATED PARTY TRANSACTIONS (continued)

Key management personnel

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

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

Categories*

	<u>30 June 2016</u>		<u>30 June 2015</u>	
	<i>Number of Shares</i>	<i>Number of Directors</i>	<i>Number of Shares</i>	<i>Number of Directors</i>
Less than 1%	5,851,549	10	5,492,616	6
1% up to less than 5%	32,051,156	2	30,085,146	6

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

Details of material contracts involving directors include:

	<u>30 June 2016</u>	<u>30 June 2015</u>
	<i>USD '000</i>	<i>USD '000</i>
Directors' participation in investments promoted by the Group	190,577	124,646

Compensation of directors and key management personnel are as follows:

	<u>30 June 2016</u>	<u>30 June 2015</u>
	<i>USD '000</i>	<i>USD '000</i>
Board of directors' attendance fees	338	298
Board of directors' remuneration	365	-
Salaries and other short-term benefits	1,604	1,612
	<u>2,307</u>	<u>1,910</u>

Terms and conditions of transactions with related parties

The Group enters into transactions, arrangements and agreements with its related parties in the ordinary course of business at commercial profit rates and fees. The above mentioned transactions and balances arose from the ordinary course of business of the Group. Outstanding balances at the period end are unsecured except for a murabaha receivable to a shipping industry investee which are secured by the pledge of 4 ships.

Board of Directors' remuneration

No board remuneration is proposed for the year 2016. The shareholders, at the Annual General Assembly held on 8 December 2015, approved the payment of Board of Directors' remuneration of USD 365 thousand relating to the year ended 30 June 2015 which has been expensed in the year 2016.

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 year ended 30 June 2016 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 2016 is US cents 0.262 for every share held (2015: US cents 0.316 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 (2015: 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).

	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
30 June 2016								
Assets								
Balances and placements with banks	8,155	127	-	-	127	-	-	8,282
Investments	173,315	6,840	-	8,100	14,940	-	-	188,255
Investments in associates and joint venture	28,046	-	-	-	-	-	-	28,046
Murabaha financing to investee companies	-	3,000	3,243	-	6,243	-	34,750	40,993
Receivables	-	13,185	20,780	-	33,965	4,065	-	38,030
Funding to project companies	-	-	-	-	-	4,231	-	4,231
Other assets	338	9,914	5,592	909	16,415	1,012	265	18,030
Property and equipment	8,434	-	-	-	-	-	-	8,434
Total assets	218,288	33,066	29,615	9,009	71,690	9,308	35,015	334,301
Liabilities								
Islamic financing payables	-	31,047	-	-	31,047	70,687	-	101,734
Employee accruals	2,246	-	1,500	-	1,500	-	-	3,746
Other liabilities	34	1,842	518	141	2,501	362	1,630	4,527
Total liabilities	2,280	32,889	2,018	141	35,048	71,049	1,630	110,007
Net liquidity gap	216,008	177	27,597	8,868	36,642	(61,741)	33,385	224,294
Cumulative liquidity gap	216,008	216,185	243,782	252,650	712,617	190,909	224,294	-
Commitments and contingencies	-	30,524	7,040	-	37,564	920	-	38,484

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33 MATURITY PROFILE (continued)

30 June 2015	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 and placements with banks	-	2,439	-	285	2,724	-	-	2,724
Investments	160,269	-	-	1,000	1,000	1,776	-	163,045
Investments in associates and joint venture	27,816	-	-	-	-	-	-	27,816
Receivables	-	2,680	7,855	2,500	13,035	13,840	470	27,345
Funding to project companies	-	-	-	185	185	13,079	596	13,860
Other assets	173	70	5,397	566	6,033	981	10	7,197
Property and equipment	8,833	-	-	-	-	-	-	8,833
Total assets	197,091	5,189	13,252	4,536	22,977	29,676	1,076	250,820
Liabilities								
Islamic financing payables	-	20,011	-	-	20,011	-	-	20,011
Employee accruals	5,131	-	1,000	-	1,000	-	-	6,131
Other liabilities	34	1,673	219	677	2,569	978	1,630	5,211
Total liabilities	5,165	21,684	1,219	677	23,580	978	1,630	31,353
Net liquidity gap	191,926	(16,495)	12,033	3,859	(603)	28,698	(554)	219,467
Cumulative liquidity gap	191,926	175,431	187,464	191,323	554,218	220,021	219,467	-
Commitments and contingencies	-	24,204	22,158	-	46,362	-	-	46,362

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

a) Industry sector	30 June 2016	Trading and Manufacturing		Banks and financial Institutions		Real estate		Oil and Gas		Health care		Technology		Shipping		Other		Total USD '000
		USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	
Assets																		
Balances and placements with banks		-	8,282	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,282
Investments		34,203	17,765	53,325	10,719	14,080	7,829	48,269	188,255									
Investment in associates and joint venture accounted under the equity method		-	-	24,715	-	905	-	2,426	28,046									
Murabaha financing to investee companies				6,243					40,993									
Receivables		11	40	4,342	80	58	19	32,639	38,030									
Funding to project companies		-	-	369	-	3,862	-	-	4,231									
Other assets		3,257	51	9,601	19	12	238	4,852	18,030									
Property and equipment		-	-	7,865	-	-	-	569	8,434									
Total assets		37,471	26,138	106,460	10,818	18,917	2,322	88,755	334,301									
Liabilities																		
Islamic financing payable		-	29,990	-	-	-	-	71,744	101,734									
Employee accruals		-	-	-	-	-	-	3,746	3,746									
Other liabilities		-	-	-	-	-	-	4,527	4,527									
Total liabilities		-	29,990	-	-	-	-	80,017	110,007									
Commitments and contingencies (note 36)		20,524	10,000	7,040	-	920	-	-	38,484									
Equity of investment account holders		-	3,099	-	-	-	-	657	3,756									

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As at 30 June 2016

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

a) Industry sector (continued)

30 June 2015	Trading and Manufacturing USD '000	Banks and financial Institutions USD '000	Real estate USD '000	Oil and Gas USD '000	Health care USD '000	Technology USD '000	Shipping USD '000	Other USD '000	Total USD '000
Assets									
Balances and placements with banks	-	2,724	-	-	-	-	-	-	2,724
Investments	29,415	16,650	27,531	10,797	14,080	1,847	13,529	49,196	163,045
Investment in associates and joint venture accounted under the equity method	-	-	24,706	-	578	-	-	2,532	27,816
Receivables	933	-	6,775	1,679	-	396	1,685	15,877	27,345
Funding to project companies	8,373	-	845	185	3,861	596	-	-	13,860
Other assets	306	39	116	72	4	134	3,636	2,890	7,197
Property and equipment	-	-	8,131	-	-	-	-	702	8,833
Total assets	39,027	19,413	68,104	12,733	18,523	2,973	18,850	71,197	250,820
Liabilities									
Islamic financing payable	-	20,011	-	-	-	-	-	-	20,011
Employee accruals	-	-	-	-	-	-	-	6,131	6,131
Other liabilities	-	-	-	-	-	-	-	5,211	5,211
Total liabilities	-	20,011	-	-	-	-	-	11,342	31,353
Commitments and contingencies (note 36)	14,204	10,000	22,158	-	-	-	-	-	46,362
Equity of investment account holders	-	3,099	-	-	-	-	-	734	3,833

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

(b) Geographic region

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

30 June 2016	GCC countries		Other MENA countries		Europe		Cayman / Americas		Global		Total
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	
Assets											
Balances and placements with banks	8,282	-	-	-	-	-	-	-	-	-	8,282
Investments	99,444	73,581	6,112	1,289	7,829						188,255
Investment in associates and joint venture accounted under the equity method	26,914	1,132	-	-	-	-	-	-	-	-	28,046
Murabaha financing to investee companies	-	-	6,243	-	34,750						40,993
Receivables	17,145	17,492	1,000	1,552	841						38,030
Funding to project companies	4,231	-	-	-	-						4,231
Other assets	4,808	3,427	2,930	6,632	233						18,030
Property and equipment	8,434	-	-	-	-						8,434
Total assets	169,258	95,632	16,285	9,473	43,653						334,301
Liabilities											
Islamic financing payable	101,734	-	-	-	-						101,734
Employee accruals	3,746	-	-	-	-						3,746
Other liabilities	4,527	-	-	-	-						4,527
Total liabilities	110,007	-	-	-	-						110,007
Commitments and contingencies	17,960	20,524	-	-	-						38,484
Equity of investment account holders	3,756	-	-	-	-						3,756

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2016

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

(b) Geographic region (continued)

30 June 2015

Assets

Balances and placements with banks

Investments

Investment in associates and joint venture accounted under the equity method

Receivables

Funding to project companies

Other assets

Property and equipment

Total assets

Liabilities

Islamic financing payable

Employee accruals

Other liabilities

Total liabilities

Commitments and contingencies

Equity of investment account holders

	GCC countries USD '000	Other MENA countries USD '000	Europe USD '000	Cayman / Americas USD '000	Global USD '000	Total USD '000
Balances and placements with banks	2,724	-	-	-	-	2,724
Investments	83,464	62,078	3,974	-	13,529	163,045
Investment in associates and joint venture accounted under the equity method	26,704	1,112	-	-	-	27,816
Receivables	15,823	8,983	855	-	1,684	27,345
Funding to project companies	4,707	8,557	-	596	-	13,860
Other assets	2,908	490	46	-	3,753	7,197
Property and equipment	8,833	-	-	-	-	8,833
Total assets	145,163	81,220	4,875	596	18,966	250,820
Liabilities						
Islamic financing payable	20,011	-	-	-	-	20,011
Employee accruals	6,131	-	-	-	-	6,131
Other liabilities	5,211	-	-	-	-	5,211
Total liabilities	31,353	-	-	-	-	31,353
Commitments and contingencies	32,158	14,204	-	-	-	46,362
Equity of investment account holders	3,833	-	-	-	-	3,833

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 2016, the Group had fiduciary assets under management of USD 1,158 million (30 June 2015: USD 1,023 million).

36 COMMITMENTS AND CONTINGENCIES

The Group has issued financial guarantees totaling USD 22.47 million (30 June 2015: USD 36.32 million) in respect of a number of its investee companies on which no losses are expected. The Group also had commitments to finance of USD nil (30 June 2015: USD 0.04 million) and commitments to invest of USD 16.01 million (30 June 2015: 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 2016. The Group does not hold collateral against any of its exposures as at 30 June 2016 (30 June 2015: 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 1.31 million (2015: provided USD 0.550 million) of collective impairment provisions during the year.

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

	30 June 2016 USD '000	30 June 2015 USD '000
Receivables	7,412	23,579
Funding to project companies	19,781	31,358
Other assets	2,641	2,443
Total	29,834	57,380

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 2016, the total credit exposure to individual counterparties which comprised 10% or more of the Group's equity was USD 152.4 million relating to four counterparties (30 June 2015: USD 53.97 million relating to one counterparty).

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 2016	<i>Gross undiscounted cash flows</i>					<i>Total USD '000</i>
	<i>Up to 3 months USD '000</i>	<i>3 to 6 months USD '000</i>	<i>6 months to 1 year USD '000</i>	<i>1 to 3 years USD '000</i>	<i>Over 3 years USD '000</i>	
	Liabilities					
Islamic financing payables	31,047	-	-	85,815	-	116,862
Employee accruals	2,246	1,500	-	-	-	3,746
Other liabilities	1,876	518	141	362	1,630	4,527
Total financial liabilities	35,169	2,018	141	86,177	1,630	125,135
Commitments and contingencies	30,524	7,040	-	920	-	38,484
Equity of investment account holders	2	-	-	3,754	-	3,756
	<i>Gross undiscounted cash flows</i>					
30 June 2015	<i>Up to 3 months USD '000</i>	<i>3 to 6 months USD '000</i>	<i>6 months to 1 year USD '000</i>	<i>1 to 3 years USD '000</i>	<i>Over 3 years USD '000</i>	<i>Total USD '000</i>
	Liabilities					
	Islamic financing payables	20,042	-	-	-	-
Employee accruals	5,131	1,000	-	-	-	6,131
Other liabilities	1,707	219	677	978	1,630	5,211
Total financial liabilities	26,880	1,219	677	978	1,630	31,384
Commitments and contingencies	24,204	22,158	-	-	-	46,362
Equity of investment account holders	27	-	-	3,806	-	3,833

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 2016	30 June 2015
Placements with financial institutions	1.50%	1.95%
Islamic financing payables	6.00%	2.50%

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:

	<i>Effect on consolidated statement of income</i>	
	30 June 2016 USD '000	30 June 2015 USD '000
100 bps parallel increase / (decrease)		
Placements with financial institutions	± 1	± 4
Funding to project companies	± 42	± 139
Islamic financing payables	± 1,017	± 200

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, Great Britain Pounds and Turkish Lira. 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 2016 USD '000	30 June 2015 USD '000
Kuwaiti Dinars	4,931	2,695
Great Britain Pounds	7,506	4,875
Turkish Lira	44,122	26,089

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 2016 and 30 June 2015 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.

	Change in currency rates	30 June 2016		30 June 2015	
		Effect on profit USD '000	Effect on equity USD '000	Effect on profit USD '000	Effect on equity USD '000
Kuwaiti Dinars	+10%	493	-	269	-
Great Britain Pounds	+10%	751	-	488	-
Turkish Lira	+10%	4,412	-	2,609	-
Kuwaiti Dinars	-10%	(493)	-	(269)	-
Great Britain Pounds	-10%	(751)	-	(488)	-
Turkish Lira	-10%	(4,412)	-	(2,609)	-

(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 2016		30 June 2015	
		Effect on profit USD '000	Effect on equity USD '000	Effect on profit USD '000	Effect on equity USD '000
Trading securities	+1%	50	-	28	-
Available-for-sale	+1%	-	14	-	15
Trading securities	-1%	(50)	-	(28)	-
Available-for-sale	-1%	-	(14)	-	(15)

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

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

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

	30 June 2016 USD '000	30 June 2015 USD '000
Total risk weighted assets	1,141,752	834,230
CET1 capital	224,294	213,702
Additional Tier 1	-	91,344
Tier 2 capital	1,362	2,558
Total regulatory capital	225,656	307,604
Total regulatory capital expressed as a percentage of total risk weighted assets	19.76%	36.87%
Minimum requirement	12.5%	12.5%

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 year.

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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.

	<i>Level 1</i> <i>USD 000</i>	<i>Level 2</i> <i>USD 000</i>	<i>Level 3</i> <i>USD 000</i>	<i>Total</i> <i>USD 000</i>
30 June 2016				
Held for trading	5,038	-	-	5,038
Fair value through profit or loss	-	-	117,982	117,982
Available-for-sale	1,380	-	-	1,380
	<u>6,418</u>	<u>-</u>	<u>117,982</u>	<u>124,400</u>
30 June 2015				
Held for trading	2,816	-	-	2,816
Fair value through profit or loss	-	-	106,112	106,112
Available-for-sale	1,472	-	-	1,472
	<u>4,288</u>	<u>-</u>	<u>106,112</u>	<u>110,400</u>

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

	<i>30 June</i> <i>2016</i> <i>USD 000</i>	<i>30 June</i> <i>2015</i> <i>USD 000</i>
At 1 July	106,112	92,760
Fair value (losses) / gains recognised in the consolidated statement of income - net	(17,049)	2,000
Additional investments made during the year - net	28,919	11,352
At 30 June	<u>117,982</u>	<u>106,112</u>

As at 30 June 2016

38 FAIR VALUE (continued)

Determining fair value under Level 3 includes use of valuation techniques such as the discounted cash flow model. The future cash flows have been estimated by the management, based on information and discussion with representatives of the management of the investee companies, and based on the latest available audited and un-audited financial statements. Cash flows have been projected for an initial period of between two to five years and then a terminal value has been estimated using a combination of value based on forward multiples and at a perpetual growth rate of up to 2% - 6% applied on the discounted cash flows of the last year of the estimate. The discount rates used for computing the present value of future cash flows range from 8.94% – 19.58%. The discount rates have been arrived at after considering the risk free rate, expected market premium, country risk and systematic risk underlying each investee company. The Group has also made use of illiquidity and marketability discounts where considered appropriate.

The potential income effect of 1% increase in the discount rates, which is a key variable used in the valuation technique, would decrease the fair values by approximately USD 1,562 thousand, whereas a 1% decrease in the discount rate would increase the fair values by approximately USD 1,565 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 4,551 thousand or reduce the fair values by approximately USD 4,551 thousand respectively.

Investment amounting USD 63,855 thousand (30 June 2015: USD 52,645 thousand) are carried at cost less impairment provision of which the carrying value approximates their fair value as at 30 June 2016.