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 2017

VENTURE
CAPITAL
BANK

In the name of Allah, the Merciful, the Compassionate

Report of the Shari'ah Supervisory Board for period from 01/07/2016 to 30/06/2017

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 01/07/2016 to 30/06/2017

It has studied and discussed, with the Bank's management, the financial statements and the income statement for the period from 01/07/2016 to 30/06/2017

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 Sharia'h, The SSB also directed the bank to exit some historical investments, in which found non-Sariah compliance, knowing that those investments are old and not new, Furthermore the SSB has reviewed the actions to modify it and approved it.

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	Nidham Bin Mohammed Saleh Yaqoobi	Issa Zaki
Shariah Member	Chairman, Shariah Supervisory Board	Shariah Member

Executed on Tuesday, 06/01/1439 H, corresponding to the 26/09/2017

VENTURE CAPITAL BANK

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 2017. Without doubt, this proved to be one of the most challenging periods for the regional investment banking industry since the financial crisis of 2008.

The year was marked by continued economic and market volatility, falling oil prices and a regional liquidity crunch; together with subdued corporate and investor sentiment. Additional factors included ongoing austerity measures and fiscal reforms by regional governments; plus heightened geopolitical tensions at a global and regional level. It was also a year of surprises, including the outcome of the Brexit referendum, and results of elections in the US and Europe; as well as one of the worst diplomatic crises to affect the GCC, following the severing of ties with one of the member states.

In light of such a challenging backdrop, we implemented a strategic realignment of the Bank, adopting a new qualitative-based approach towards new investments and the post-acquisition management of our investment portfolio. At the beginning of the year, under the direction of the Chairman, the Board and Executive Management took part in a special strategic workshop, at which all portfolio companies were subjected to thorough investment stress testing and analysis to determine the most realistic valuations. The Chairman and Board also identified those legacy projects that have been affected by financial, economic, market or geopolitical issues, and need to be revived. In addition, the most eligible candidates for immediate exit were selected and earmarked for priority action. This new strategic focus continued to be implemented throughout the year.

VENTURE
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In the best interests of shareholders and investors, and in the spirit of full transparency and sound investment banking, the Board has decided to clear the investment portfolio of all potential impairments and fair value losses, both short and long term, in order to protect the balance sheet and provide a faithful presentation of the Bank's financial position. Accordingly, we booked impairment provisions and fair value losses totaling USD 44.7 million during the year in a conservative and prudent manner, which has resulted in the Bank reporting a loss of USD 53.6 million for fiscal year 2017.

This loss should not be interpreted as a negative reflection of the Bank's financial position or capabilities. Strongly capitalised at USD 190 million, and with assets under management exceeding USD 1.4 billion and an attractive deal pipeline, the Bank is a financially strong and solid institution. At the end of the fiscal year, our capital adequacy ratio was 15.3 per cent, considerably higher than the minimum requirement of the Central Bank of Bahrain.

During the year, as directed by the Chairman, the Board and Management took steps to further enhance the institutional capability of the Bank. This included fine tuning our organisation structure, and continuing to invest in our human resources and information technology. We also strengthened our corporate governance framework to ensure ongoing compliance in the face of a changing regulatory environment. To support the Bank's realigned strategic focus, two new ad hoc Board committees were established – Exit Committee and Real Estate Committee – to provide expert advice and feedback to the Board of Directors in these areas. In addition, we maintained our focus on risk management in order to protect the Bank against the impact of increasingly uncertain economic and market conditions.

Looking ahead, next year looks set to be another highly-testing and unpredictable period, marked by continued oil price and market volatility; further reforms by MENA governments to diversify revenues and reduce fiscal deficits; and continued geo-political turmoil in parts of the region. However, the decision to book very conservative provisions and post a loss for this year, will enable the Bank to start fiscal 2018 in a much stronger and healthier position, and focus on implementing our realigned strategy.

With a clean balance sheet, healthy portfolio, adequate liquidity and a strong deal pipeline combined with a determined thrust to achieve exits from legacy investments, we are well placed to capture new business opportunities, and return to profitability. It should be noted that the Bank benefits from a highly-supportive Board, a stable and well-experienced management team, and a very loyal client base. The Board has full confidence in the ability of the Management team to continue responding proactively to the challenges of a new regional economic reality. As such, we have a cautiously optimistic outlook for the Bank's prospects in FY 2018.

In conclusion, on behalf of myself and 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, Commerce & Tourism, 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 its 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.

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 2017, 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 2017, 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.

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.

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

Report on other regulatory requirements (continued)

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 2017 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.

Ernst + Young

Partner's registration no: 45
27 September 2017
Manama, Kingdom of Bahrain

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	*30 June 2017 USD '000*	*30 June 2016 USD '000*
ASSETS			
Balances and placements with banks	8	7,571	8,282
Investments	9	161,354	188,255
Investments in associates and joint venture accounted under the equity method	10	26,960	28,046
Murabaha financing to investee companies	11	34,750	40,993
Receivables	12	16,630	38,030
Funding to project companies	13	-	4,231
Other assets	14	27,610	18,030
Property and equipment	15	8,077	8,434
TOTAL ASSETS		282,952	334,301
LIABILITIES			
Islamic financing payables	16	101,674	101,734
Employee accruals		2,723	3,746
Other liabilities	17	7,910	4,527
Total liabilities		112,307	110,007
EQUITY			
Share capital	18	190,000	190,000
Statutory reserve	18	5,859	5,859
Foreign currency translation reserve		(130)	(127)
(Accumulated losses) / retained earnings		(25,084)	28,562
Total equity		170,645	224,294
TOTAL LIABILITIES AND EQUITY		282,952	334,301
OFF BALANCE SHEET ITEMS			
Equity of investment account holders		2,744	3,756

Abdulfatah Mohd. Rafie Marafie
Chairman

Abdullatif M. Janahi
Board Member
and Chief Executive Officer

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended 30 June 2017

	Note	*30 June 2017 USD '000*	*30 June 2016 USD '000*
REVENUE			
Income from investment banking services	19	4,795	31,126
Finance income	20	12	128
Dividend income		834	837
Rental and other income	21	2,945	4,550
Total revenue		8,586	36,641
OTHER (LOSSES) GAINS			
Fair value losses on investments at fair value through profit or loss	22	(38,266)	(17,508)
Gains from sale of investments	23	-	6,397
Total (loss) income		(29,680)	25,530
EXPENSES			
Staff costs	24	6,194	8,066
Travel and business development expenses		529	575
Legal and professional fees		1,357	903
Finance expense	20	6,141	3,047
Depreciation	15	413	477
Other expenses	26	3,978	3,101
Total expenses		18,612	16,169
(LOSS) / PROFIT BEFORE IMPAIRMENT PROVISIONS AND SHARE OF LOSSES OF ASSOCIATES AND JOINT VENTURE		(48,292)	9,361
Impairment provisions charged	25	(6,448)	(3,005)
Recovery of impaired receivables	25	1,344	3,690
Share of losses of associates and joint venture - net	10	(250)	(402)
(LOSS) / PROFIT BEFORE BOARD OF DIRECTORS' REMUNERATION		(53,646)	9,644
Board of Directors' remuneration	28	-	(365)
NET (LOSS) / PROFIT FOR THE YEAR AFTER BOARD OF DIRECTORS' REMUNERATION		(53,646)	9,279

Abdulfatah Mohd. Rafie Marafie
Chairman

Abdullatif M. Janahi
Board Member
and Chief Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

	Note	*Share capital USD '000*	*Unvested shares of employee share ownership plan USD '000*	*Statutory reserve USD '000*	*Foreign currency translation reserve USD '000*	*(Accumulated losses) / Retained earnings USD '000*	*Total USD '000*
Balance at 1 July 2016		190,000	-	5,859	(127)	28,562	224,294
Net loss for the year		-	-	-	-	(53,646)	(53,646)
Foreign currency translation difference on investment in an associate		-	-	-	(3)	-	(3)
Balance at 30 June 2017		**190,000**	**-**	**5,859**	**(130)**	**(25,084)**	**170,645**
Balance at 1 July 2015		190,000	(10,000)	4,931	(175)	34,711	219,467
Cancellation of ESOP shares and issue of bonus shares	18c,18d & 27	-	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

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

	Note	30 June 2017 USD '000	30 June 2016 USD '000
OPERATING ACTIVITIES			
Net (loss) profit for the year		**(53,646)**	9,279
Adjustments for non-cash items:			
Gain on investments	23	**-**	(6,397)
Share of results of associates and joint venture accounted under the equity method	10	**250**	402
Impairment provisions charged - net	25	**6,448**	3,005
Depreciation	15	**413**	477
Dividend income		**(834)**	(837)
Fair value losses on investments at fair value through profit or loss - net	22	**38,266**	17,508
Operating (loss) profit before changes in operating assets and liabilities		**(9,103)**	23,437
Changes in operating assets and liabilities:			
Investments		**(16,453)**	(36,713)
Investments in associates and joint venture accounted under the equity method		**616**	(632)
Murabaha financing to investee companies		**6,243**	(40,993)
Receivables		**20,429**	(11,529)
Funding to project companies		**4,231**	9,033
Other assets		**(10,051)**	(11,306)
Employee accruals		**(1,023)**	(2,385)
Other liabilities		**3,383**	(684)
Net cash used in operating activities		**(1,728)**	(71,772)
INVESTING ACTIVITIES			
Dividends received		**1,136**	137
Dividends paid	18	**-**	(4,500)
Property and equipment - net	15	**(56)**	(78)
Net cash from (used in) investing activities		**1,080**	(4,441)
FINANCING ACTIVITY			
Islamic financing payables		**(60)**	81,723
Net cash (used in) from financing activity		**(60)**	81,723
Foreign currency translation adjustments		**(3)**	48
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(711)**	5,558
Cash and cash equivalents at beginning of the year		**8,282**	2,724
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**7,571**	8,282
Comprising:			
Balances in current and call accounts	8	**7,441**	8,155
Short-term placements	8	**130**	127
		7,571	8,282

The attached notes 1 to 37 form part of these consolidated financial statements.

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

For the year ended 30 June 2017

2017	**Balance as at 1 July 2016 USD '000**	***Movements during the year*** **Distribution USD '000**	**Fair value movement / (impairment) USD '000**	**Net (loss) / profit USD '000**	**Bank's fees as an agent USD '000**	**Balance as at 30 June 2017 USD '000**
GCC Pre IPO Fund	**3,756**	**(156)**	**(32)**	**(824)**	**-**	**2,744**

2016	*Balance as at 1 July 2015 USD '000*	*Movements during the year* *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 2016 USD '000*
GCC Pre IPO Fund	3,833	(45)	(52)	20	-	3,756

	2017 USD '000	*2016 USD '000*
Investment in equities	**2,742**	3,754
Balances with banks	**2**	2
Total as at 30 June	**2,744**	3,756

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. The investments are legally owned by the Group for the benefitial interest of RIA. 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.

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, Commerce and Tourism. 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 10 July 2017.

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 36 and 37.

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 July 2016
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 July 2016 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) Cash and cash equivalents

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

(i) Property and equipment

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

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

(j) Impairment of non-financial assets

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

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

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

(k) Islamic financing payable

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

(l) Financial 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.

(m) 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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Share capital and statutory reserve

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

Treasury shares

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

Statutory reserve

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

(o) Revenue recognition

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

Income from investment banking services

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

(i) Investment advisory and structuring income

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

(ii) Fee income

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

(iii) Income from placements with financial institutions

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

(iv) Dividend income

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

(p) Operating leases

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

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

Off-balance sheet equity of investment account holders represent assets acquired using funds provided by holders of restricted investment accounts and managed by the Group as an investment manager based on a mudaraba 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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Employee benefits

(i) Short-term benefits

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

(ii) Post employment benefits

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance 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.

(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 last year (refer note 27).

(s) Provisions

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

(t) Segment reporting

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

(u) Zakah

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

(v) Offsetting financial instruments

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

(w) Trade and settlement date accounting

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

6 INVESTMENT IN SUBSIDIARIES

Key subsidiaries of the Group which are consolidated 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 Venture Capital 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 during the year).
The Lounge Serviced Offices Company W.L.L.	2007	Kingdom of Bahrain	To own, operate and manage serviced offices in Bahrain and regionally.

7 CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

At 30 June 2017	***Fair value through profit or loss USD '000***	***Available-for-sale USD '000***	***Amortised cost / cost USD '000***	***Total USD '000***
ASSETS				
Balances and placements with banks	**-**	**-**	**7,571**	**7,571**
Investments	**105,614**	**55,740**	**-**	**161,354**
Murabaha financing to investee companies	**-**	**-**	**34,750**	**34,750**
Receivables	**-**	**-**	**16,630**	**16,630**
Other assets	**-**	**-**	**26,828**	**26,828**
TOTAL FINANCIAL ASSETS	**105,614**	**55,740**	**85,779**	**247,133**
LIABILITIES				
Islamic financing payables	**-**	**-**	**101,674**	**101,674**
Other liabilities	**-**	**-**	**4,825**	**4,825**
TOTAL FINANCIAL LIABILITIES	**-**	**-**	**106,499**	**106,499**
OFF BALANCE SHEET ITEMS				
Equity of investment account holders	**-**	**2,742**	**2**	**2,744**

At 30 June 2016	*Fair value through profit or loss USD '000*	*Available-for-sale USD '000*	*Amortised cost / cost USD '000*	*Total 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

8 BALANCES AND PLACEMENTS WITH BANKS

	30 June 2017 USD '000	30 June 2016 USD '000
Balances in current and call accounts	**7,441**	8,155
Short-term placement	**131**	133
Less: Deferred profits	**(1)**	(6)
	7,571	8,282

Short-term placement comprises mudaraba deal with a locally incorporated Islamic bank at a profit rate of 1.5% (2016: 1.5%) and maturing within 90 days of initial placement.

9 INVESTMENTS

	30 June 2017 USD '000	30 June 2016 USD '000
Investments at fair value through profit or loss		
Quoted equities held for trading	**4,582**	5,038
Unquoted:		
Equities	**93,398**	103,748
Fund	**7,634**	14,234
	105,614	123,020
Available-for-sale investments ("AFS")		
Quoted equities	**1,305**	1,380
Unquoted equities	**47,315**	48,915
Short term liquidity certificates	**7,120**	14,940
	55,740	65,235
	161,354	188,255

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:

	30 June 2017 USD '000	30 June 2016 USD '000
Real estate projects	**25,822**	32,768
Business development projects	**12,761**	14,152
Healthcare projects	**14,080**	14,080
Financial services	**1,772**	2,855
	54,435	63,855

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

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

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

			% holding	
Name of associate	***Nature of business***	***Country of incorporation***	***30 June 2017***	***30 June 2016***
Mozon Holding SA	Investment development	Kingdom of Morocco	**20**	20
German Medical Centre Bahrain *	Specialist orthopedic hospital	Kingdom of Bahrain	**50.59**	30
Dari Holdings	Real estate development	Kingdom of Bahrain	**43**	43
Venture Capital Fund Bahrain	Small & medium enterprises investment fund	Kingdom of Bahrain	**30**	30

			% holding	
Name of joint venture	***Nature of business***	***Country of incorporation***	***30 June 2017***	***30 June 2016***
Global Real Estate Co. W.L.L.	Real estate development	Kingdom of Bahrain	**50**	50

The carrying value comprises:	***30 June 2017 USD '000***	*30 June 2016 USD '000*
Associates	**2,084**	3,331
Joint venture	**24,876**	24,715
	26,960	28,046

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

	30 June 2017 USD '000	*30 June 2016 USD '000*
At 1 July	**28,046**	27,816
Capitalisation of funding**	**302**	584
Foreign currency differences	**(2)**	48
Recalssified as investment in subsidiary at fair value through profit and loss*	**(916)**	-
Impairment provisions charged	**(220)**	-
Share of losses of associates and joint venture, net	**(250)**	(402)
At 30 June	**26,960**	28,046

* During the year, the Group increased its investment in German Medical Centre Bahrain from 30% to 50.59% resulting in it becoming a subsidiary with effect from 30 September 2016. The Group carries this investment at fair value through profit or loss as allowed by IFRS 10.

** 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:

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

	30 June 2017 USD '000	*30 June 2016 USD '000*
Total assets	**77,459**	80,539
Total liabilities	**22,664**	24,505
Total revenues for the year	**345**	1,080
Total net loss for the year	**(233)**	(508)

11 MURABAHA FINANCING TO INVESTEE COMPANIES

	30 June 2017 USD '000	*30 June 2016 USD '000*
Financing to an investee companies in the following sectors:		
Shipping	**34,750**	34,750
United Kingdom real estate	**-**	6,243
At 30 June	**34,750**	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

	30 June 2017 USD '000	*30 June 2016 USD '000*
Receivable from investment banking services	**11,031**	32,984
Receivable on sale of investment	**10,167**	9,167
	21,198	42,151
Less: Specific impairment provision	**(4,568)**	(4,121)
	16,630	38,030

Refer to note 25 for movement in impairment provision.

13 FUNDING TO PROJECT COMPANIES

	30 June 2017 USD '000	*30 June 2016 USD '000*
Gross funding	**12,067**	19,780
Less: Impairment provision	**(12,067)**	(15,549)
	-	4,231

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

	30 June 2017 USD '000	30 June 2016 USD '000
Advances to acquire investments	**25,232**	13,616
Project costs recoverable	**1,871**	1,899
Dividend receivable	**522**	824
Other receivables	**4,442**	4,320
Less: Impairment provision	**(4,457)**	(2,629)
	27,610	18,030

Refer to note 25 for movement in impairment provision.

15 PROPERTY AND EQUIPMENT

	Building USD '000	Office equipment USD '000	Furniture and fixtures USD '000	Motor vehicles USD '000	Total USD '000
Cost					
At 1 July 2016	10,098	1,771	4,697	502	17,068
Additions during the year	-	33	-	23	56
Disposal	-	-	-	(29)	(29)
At 30 June 2017	**10,098**	**1,804**	**4,697**	**496**	**17,095**
Depreciation					
At 1 July 2016	1,810	1,669	4,697	458	8,634
Charge for the year	278	95	-	40	413
Disposal	-	-	-	(29)	(29)
At 30 June 2017	**2,088**	**1,764**	**4,697**	**469**	**9,018**
Net book value at 30 June 2017	**8,010**	**40**	**-**	**27**	**8,077**
Net book value at 30 June 2016	8,288	102	-	44	8,434

16 ISLAMIC FINANCING PAYABLES

		30 June 2017 USD '000	30 June 2016 USD '000
Medium term Islamic financing payables	16.1	**70,687**	70,687
Short term Islamic financing payables	16.2	**30,987**	31,047
		101,674	101,734

16.1 This represents a medium term wakala financing raised in January 2016 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 from the financing raising date.

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 2.75% (2016: 3.5%).

17 OTHER LIABILITIES

	30 June 2017 USD '000	30 June 2016 USD '000
Accounts payable	**4,825**	1,473
Provisions and accruals	**1,552**	1,511
Deferred income	**1,272**	1,351
Other	**261**	192
	7,910	4,527

18 SHARE CAPITAL

	30 June 2017 USD '000	30 June 2016 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 (2016: 190,000,000 shares of USD 1 each)	**190,000**	190,000

a) Statutory reserve

The Bahrain Commercial Companies Law and the Bank's articles of association requires that 10% of the profit for the year shall be transferred to a statutory reserve. Since the Bank incurred a net loss for the year, there has been no transfer to statutory reserve made for the year (2016: USD 928 thousand). 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

During the year ended 30 June 2016, the Group has cancelled the employee share ownership plan following a resolution of the shareholders.

d) Cash and share dividends

During the year, the Group did not declare or pay dividends in respect of the year ended 30 June 2016. 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 for the year ended 30 June 2015.

19 INCOME FROM INVESTMENT BANKING SERVICES

	30 June 2017 USD '000	30 June 2016 USD '000
Investment structuring income	-	26,350
Investment management and arrangement fees	**4,795**	4,776
	4,795	31,126

20 FINANCE INCOME AND EXPENSE

	30 June 2017 USD '000	30 June 2016 USD '000
Finance income		
Income from placements with financial institutions	**12**	128
Finance expense		
Cost of Islamic financing payables	**(6,141)**	(3,047)
Net finance expense	**(6,129)**	(2,919)

21 RENTAL AND OTHER INCOME

	30 June 2017 USD '000	30 June 2016 USD '000
Rental and property management income	**1,621**	1,901
Collective impairment provision released (note 25)	-	1,306
Write back of excess liabilities upon ESOP unwinding (note 18 c)	-	416
Other income	**1,324**	927
	2,945	4,550

Other income mainly comprises liquidity program certificate profit (2016: cost recoveries and write back of excess accruals).

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

	30 June 2017 USD '000	30 June 2016 USD '000
Trading securities	**(456)**	(459)
Investments designated at fair value through profit or loss - net	**(37,810)**	(17,049)
	(38,266)	(17,508)

23 GAINS FROM SALE OF INVESTMENTS

	30 June 2017 USD '000	30 June 2016 USD '000
Gain on sale of available-for-sale investments - net	-	4,020
Gain on sale of investment designated at fair value through profit or loss	-	2,377
	-	6,397

24 STAFF COSTS

	30 June 2017 USD '000	30 June 2016 USD '000
Salaries and benefits	**5,727**	7,625
Social insurance expenses	**406**	408
Other staff expenses	**61**	33
	6,194	8,066

25 IMPAIRMENT PROVISIONS CHARGED

	Specific impairment provisions relating to						
30 June 2017	***Investments 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***	***Collective impairment provision (Note 14) USD '000***	***Total USD '000***
Provision at the beginning of the year	(17,966)	(5,173)	(4,121)	(14,187)	(2,629)	(1,362)	**(45,438)**
Impairment provisions charged	(4,786)	(220)	(971)	-	(471)	-	**(6,448)**
Recovery during the year	-	-	524	820	-	-	**1,344**
Release of provision related to investments derecognised	-	-	-	1,300	-	-	**1,300**
Write-offs	-	-	-	-	5	-	**5**
	(4,786)	**(220)**	**(447)**	**2,120**	**(466)**	**-**	**(3,799)**
Provision at the end of the year	**(22,752)**	**(5,393)**	**(4,568)**	**(12,067)**	**(3,095)**	**(1,362)**	**(49,237)**

* Collective impairment provision relates to other assets (refer to note 14).

25 IMPAIRMENT PROVISIONS CHARGED (continued)

	Specific impairment provisions relating to						
30 June 2016	*Investments 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*	*Collective impairment provision* (Note 14) USD '000*	*Total USD '000*
Provision at the beginning of the period	(20,903)	(5,173)	(8,417)	(15,125)	(2,090)	(2,558)	(54,266)
Charge for the year	(1,092)	-	(844)	(596)	(473)	-	(3,005)
Release from collective impairment provision	-	-	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)	(5,173)	(4,121)	(14,187)	(2,629)	(1,362)	(45,438)

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

26 OTHER EXPENSES

	30 June 2017 USD '000	*30 June 2016 USD '000*
Rent and office expenses	**1,763**	1,708
Publicity, conferences and promotion	**125**	162
Board of directors and Shari'a supervisory board fees and expenses	**539**	571
Exchange loss	**283**	574
Regulatory penalties	**97**	31
Project management costs	**1,157**	42
Other	**14**	13
	3,978	3,101

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. 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.

Movement in the ESOP units during the year:
The following table illustrates the number and changes in ESOP units and liabilities for the prior year.

	30 June 2017		*30 June 2016*	
	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
Cancelled during the year	-	-	(6,423)	-
Dividends credited	-	-	-	-
Settlement of participants dues	-	-	-	(2,885)
Write back	-	-	-	(416)
Balance at end of year	-	-	-	-

28 RELATED PARTY TRANSACTIONS

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

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

28 RELATED PARTY TRANSACTIONS (continued)

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

30 June 2017	*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*	*Total USD '000*
Assets				
Balances and placements with banks	-	-	512	**512**
Investments	19,838	-	7,634	**27,472**
Investments in associates and joint venture accounted under the equity method	26,960	-	-	**26,960**
Murabaha financing to investee companies	34,750	-	-	**34,750**
Receivables	-	-	-	**-**
Funding to project companies	-	-	-	**-**
Other assets	5,414	-	684	**6,098**
Liabilities				
Employee accruals	-	1,503	-	**1,503**
Other liabilities	-	-	360	**360**
Income				
Income from investment banking services	-	-	-	**-**
Share of loss of associates and joint venture accounted for using the equity method	(250)	-	-	**(250)**
Other income	-	-	718	**718**
Expenses (excluding compensation for key management personnel)				
Impairment allowances against investments	-	-	-	**-**
Impairment allowances against receivables	717	-	-	**717**
Commitments and contingencies	18,726	-	-	**18,726**

28 RELATED PARTY TRANSACTIONS (continued)

30 June 2016	*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*	*Total USD '000*
Assets				
Balances and placements with banks	-	-	733	733
Placements with financial institutions	-	-	-	-
Investments	40,815	-	14,234	55,049
Investments in associates and joint venture accounted under the equity method	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	-	1,051	-	1,051
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 receivables	1,182	-	-	1,182
Commitments and contingencies	20,829	-	-	20,829

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**

	30 June 2017		*30 June 2016*	
	Number of Shares	***Number of Directors***	*Number of Shares*	*Number of Directors*
Less than 1%	**5,952,312**	**7**	6,954,411	7
1% up to less than 5%	**16,654,724**	**4**	19,624,012	5
5% and less than 10%	**25,179,616**	**2**	23,635,104	2
	47,786,652	**13***	50,213,527	14*

** One director representing a corporate shareholder also holds a personal ownership of 1.19% (2016: Two directors also with personal ownership of 1.03% & 1.12%), hence total directors for the year ended 2017 were 12 directors (2016: 12 directors).*

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

Compensation of directors and key management personnel are as follows:

	30 June 2017 USD '000	*30 June 2016 USD '000*
Board of directors' attendance fees	**342**	338
Board of directors' remuneration	**-**	365
Salaries and other short-term benefits	**1,699**	1,604
	2,041	2,307

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 four vessels.

Board of Directors' remuneration
No board remuneration is proposed for the years 2017 and 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 was accordingly 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 2017 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 2017 is US cents nil for every share held (2016: US cents 0.262 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 (2016: 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 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 36 (c).

30 June 2017	*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*	*No fixed maturity USD '000*	*Total USD '000*
Assets								
Balances and placements with banks	7,571	-	-	7,571	-	-	-	**7,571**
Investments	-	-	7,120	7,120	-	-	154,234	**161,354**
Investments in associates and joint venture accounted under the equity method	-	-	-	-	-	-	26,960	**26,960**
Murabaha financing to investee companies	-	-	-	-	34,750	-	-	**34,750**
Receivables	10,247	2,790	768	13,805	2,825	-	-	**16,630**
Funding to project companies	-	-	-	-	-	-	-	-
Other assets	1,230	12,074	466	13,770	14	11	13,815	**27,610**
Property and equipment	-	-	-	-	-	-	8,077	**8,077**
Total assets	**19,048**	**14,864**	**8,354**	**42,266**	**37,589**	**11**	**203,086**	**282,952**
Liabilities								
Islamic financing payables	30,987	-	-	30,987	70,687	-	-	**101,674**
Employee accruals	-	-	-	-	457	-	2,266	**2,723**
Other liabilities	5,048	687	141	5,876	369	1,630	35	**7,910**
Total liabilities	**36,035**	**687**	**141**	**36,863**	**71,513**	**1,630**	**2,301**	**112,307**
Net liquidity gap	**(16,987)**	**14,177**	**8,213**	**5,403**	**(33,924)**	**(1,619)**	**200,785**	**170,645**
Cumulative liquidity gap	**(16,987)**	**(2,810)**	**5,403**	**5,403**	**(28,521)**	**(30,140)**	**170,645**	**170,645**
Commitments and contingencies	**-**	**752**	**3,896**	**4,648**	**15,063**	**-**	**10,000**	**29,711**

32 MATURITY PROFILE (continued)

30 June 2016	*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*	*No fixed maturity USD '000*	*Total USD '000*
Assets								
Balances and placements with banks	8,282	-	-	8,282	-	-		8,282
Investments	6,840	-	8,100	14,940	-	-	173,315	188,255
Investments in associates and joint venture accounted under the equity method	-	-	-	-	-	-	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	9,914	5,592	909	16,415	1,012	265	338	18,030
Property and equipment	-	-	-	-	-	-	8,434	8,434
Total assets	41,221	29,615	9,009	79,845	9,308	35,015	210,133	334,301
Liabilities								
Islamic financing payables	31,047	-	-	31,047	70,687	-	-	101,734
Employee accruals	-	1,500	-	1,500	-	-	2,246	3,746
Other liabilities	1,842	518	141	2,501	362	1,630	34	4,527
Total liabilities	32,889	2,018	141	35,048	71,049	1,630	2,280	110,007
Net liquidity gap	8,332	27,597	8,868	44,797	(61,741)	33,385	207,853	224,294
Cumulative liquidity gap	8,332	35,929	44,797	44,797	(16,944)	16,441	224,294	224,294
Commitments and contingencies	30,524	7,040	-	37,564	920	-	-	38,484

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

a) Industry sector

30 June 2017	*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	-	7,571	-	-	-	-	-	-	**7,571**
Investments	10,639	13,684	44,455	5,460	19,002	1,107	4,929	62,078	**161,354**
Investment in associates and joint venture accounted under the equity method	-	-	24,876	-	-	-	-	2,084	**26,960**
Murabaha financing to investee companies	-	-	-	-	-	-	34,750	-	**34,750**
Receivables	-	80	2,618	-	290	-	-	13,642	**16,630**
Funding to project companies	-	-	-	-	-	-	-	-	**-**
Other assets	5,414	20	10,247	-	13	-	-	11,916	**27,610**
Property and equipment	-	-	7,597	-	-	-	-	480	**8,077**
Total assets	**16,053**	**21,355**	**89,793**	**5,460**	**19,305**	**1,107**	**39,679**	**90,200**	**282,952**
Liabilities									
Islamic financing payable	-	30,040	-	-	-	-	-	71,634	**101,674**
Employee accruals	-	-	-	-	-	-	-	2,723	**2,723**
Other liabilities	-	-	-	-	-	-	-	7,910	**7,910**
Total liabilities	**-**	**30,040**	**-**	**-**	**-**	**-**	**-**	**82,267**	**112,307**
Commitments and contingencies (note 35)	**17,363**	**10,000**	**1,304**	**-**	**1,044**	**-**	**-**	**-**	**29,711**
Equity of investment account holders	**-**	**2,298**	**-**	**-**	**-**	**-**	**-**	**446**	**2,744**

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

a) Industry sector (continued)

30 June 2016	*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	-	8,282	-	-	-	-	-	-	8,282
Investments	34,203	17,765	53,325	10,719	14,080	2,065	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				34,750		40,993
Receivables	11	40	4,342	80	58	19	841	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	43,420	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 35)	20,524	10,000	7,040	-	920	-	-	-	38,484
Equity of investment account holders	-	3,099	-	-	-	-	-	657	3,756

33 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 2017	*GCC countries USD '000*	*Other MENA countries USD '000*	*Europe USD '000*	*Cayman / Americas USD '000*	*Global USD '000*	*Total USD '000*
Assets						
Balances and placements with banks	7,571	-	-	-	-	**7,571**
Investments	87,689	59,795	6,152	2,789	4,929	**161,354**
Investment in associates and joint venture accounted under the equity method	25,850	1,110	-	-	-	**26,960**
Murabaha financing to investee companies	-	-	-	-	34,750	**34,750**
Receivables	13,807	2,705	-	118	-	**16,630**
Funding to project companies	-	-	-	-	-	-
Other assets	11,233	5,493	1,569	9,315	-	**27,610**
Property and equipment	8,077	-	-	-	-	**8,077**
Total assets	**154,227**	**69,103**	**7,721**	**12,222**	**39,679**	**282,952**
Liabilities						
Islamic financing payable	101,674	-	-	-	-	**101,674**
Employee accruals	2,723	-	-	-	-	**2,723**
Other liabilities	7,910	-	-	-	-	**7,910**
Total liabilities	**112,307**	-	-	-	-	**112,307**
Commitments and contingencies	**12,348**	**17,363**	-	-	-	**29,711**
Equity of investment account holders	**2,744**	-	-	-	-	**2,744**

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

(b) Geographic region (continued)

30 June 2016	*GCC countries USD '000*	*Other MENA countries USD '000*	*Europe USD '000*	*Cayman / Americas USD '000*	*Global USD '000*	*Total 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

34 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.

35 COMMITMENTS AND CONTINGENCIES

The Group has issued financial guarantees totaling USD 15.86 million (30 June 2016: USD 22.47 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 2016: USD nil) and commitments to invest of USD 13.85 million (30 June 2016: USD 16.01 million).

36 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 Acting 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 2017. The Group holds collateral comprising the pledge of four ships against its funding exposure to an investee in the shipping sector totalling approximately US$ 35 million as at 30 June 2017 (30 June 2016: nil). In the opinion of management, the value of the collateral based on recent ships valuations data, is considered to sufficiently cover the total exposure.

36 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 32.

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 provided specific provisions as disclosed in note 25, and additionally has retained a collective impairment provision of USD 1.36 million as a general provision.

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

	30 June 2017 USD '000	*30 June 2016 USD '000*
Receivables	**7,684**	7,412
Funding to project companies	**12,067**	19,781
Other assets	**3,255**	2,641
Total	**23,006**	29,834

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 33.

At 30 June 2017, the total credit exposure to individual counterparties which comprised 10% or more of the Group's equity was USD 132.2 million relating to four counterparties (30 June 2016: USD 152.4 million relating to four 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.

36 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 32 for the expected maturity profile of assets and liabilities.

	Gross undiscounted cash flows					
30 June 2017	***Up to 3 months USD '000***	***3 to 6 months USD '000***	***6 months to 1 year USD '000***	***1 to 3 years USD '000***	***Over 3 years USD '000***	***Total USD '000***
Liabilities						
Islamic financing payables	30,987	-	-	85,815	-	**116,802**
Employee accruals	2,266	-	-	457	-	**2,723**
Other liabilities	5,083	687	141	369	1,630	**7,910**
Total financial liabilities	**38,336**	**687**	**141**	**86,641**	**1,630**	**127,435**
Commitments and contingencies	**10,000**	**752**	**3,896**	**15,063**	**-**	**29,711**
Equity of investment account holders	**2**	**-**	**-**	**2,742**	**-**	**2,744**

	Gross undiscounted cash flows					
30 June 2016	*Up to 3 months USD '000*	*3 to 6 months USD '000*	*6 months to 1 year USD '000*	*1 to 3 years USD '000*	*Over 3 years USD '000*	*Total USD '000*
Liabilities						
Islamic financing payables	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

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.

36 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 2017	*30 June 2016*
Placements with financial institutions	**1.50%**	1.50%
Islamic financing payables	**6.00%**	6.00%

Sensitivity analysis

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

	Effect on consolidated statement of income	
	30 June 2017 USD '000	*30 June 2016 USD '000*
100 bps parallel increase / (decrease)		
Placements with financial institutions	**± 1**	± 1
Funding to project companies	**± 42**	± 42
Islamic financing payables	**± 1,017**	± 1,017

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 2017 USD '000	*30 June 2016 USD '000*
Kuwaiti Dinars	**4,444**	4,931
Great Britain Pounds	**2,703**	7,506
Turkish Lira	**45,371**	44,122

36 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 2017 and 30 June 2016 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the US Dollar with all other variables held constant on the consolidated statement of income (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity. A negative amount on the table below represents a potential net reduction in the consolidated statements of income or equity, while a positive amount reflects a net potential increase.

		30 June 2017		*30 June 2016*	
	Change in currency rates	***Effect on profit USD '000***	***Effect on equity USD '000***	*Effect on profit USD '000*	*Effect on equity USD '000*
Kuwaiti Dinars	+10%	**444**	-	493	-
Great Britain Pounds	+10%	**270**	-	751	-
Turkish Lira	+10%	**4,537**	-	4,412	-
Kuwaiti Dinars	-10%	**(444)**	-	(493)	-
Great Britain Pounds	-10%	**(270)**	-	(751)	-
Turkish Lira	-10%	**(4,537)**	-	(4,412)	-

(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 2017		*30 June 2016*	
		Effect on profit USD '000	***Effect on equity USD '000***	*Effect on profit USD '000*	*Effect on equity USD '000*
Trading securities	+1%	**46**	-	50	-
Available-for-sale	+1%	-	**13**	-	14
Trading securities	-1%	**(46)**	-	(50)	-
Available-for-sale	-1%	-	**(13)**	-	(14)

36 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) 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 2017 USD '000	*30 June 2016 USD '000*
Total risk weighted assets	**1,121,121**	1,141,752
CET1 capital	**170,645**	224,294
Additional Tier 1	**-**	-
Tier 2 capital	**1,362**	1,362
Total regulatory capital	**172,007**	225,656
Total regulatory capital expressed as a percentage of total risk weighted assets	**15.34%**	19.76%
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.

37 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.

30 June 2017	***Level 1 USD 000***	***Level 2 USD 000***	***Level 3 USD 000***	***Total USD 000***
Held for trading	4,582	-	-	**4,582**
Fair value through profit or loss	-	-	101,032	**101,032**
Available-for-sale	1,305	-	-	**1,305**
	5,887	-	**101,032**	**106,919**

30 June 2016	*Level 1 USD 000*	*Level 2 USD 000*	*Level 3 USD 000*	*Total USD 000*
Held for trading	5,038	-	-	5,038
Fair value through profit or loss	-	-	117,982	117,982
Available-for-sale	1,380	-	-	1,380
	6,418	-	117,982	124,400

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

	30 June 2017 USD 000	*30 June 2016 USD 000*
At 1 July	**117,982**	106,112
Fair value losses recognised in the consolidated statement of income - net	**(37,810)**	(17,049)
Additional investmentsmade during the year - net	**20,860**	28,919
At 30 June	**101,032**	117,982

37 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 1,778 thousand, whereas a 1% decrease in the discount rate would increase the fair values by approximately USD 1,854 thousand. The potential income effect of 0.5 times change, on either side, in the market multiples, which is a key variable used in the valuation technique, would increase the fair values by approximately USD 2,460 thousand or reduce the fair values by approximately USD 2,460 thousand respectively.

Investments amounting to USD 54,435 thousand (30 June 2016: USD 63,855 thousand) are carried at cost less impairment provision in the absence of a reliable measure of fair value. However in the opinion of management and based on best estimates, the fair value is not considered to be materially different from above carrying value.