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 2018

VENTURE
CAPITAL
BANK

In the name of Allah the Merciful, the Compassionate

Report of the Shari'ah Supervisory Board for period from 01/07/2017 to 30/06/2018

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 01/07/2017 to 30/06/2018.

It has studied and discussed, with the Bank's management, the financial statements and the income statement for the period from 01/07/2017 to 30/06/2018.

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 have directed the Bank to exit some historical investments, in which we found some non-Sariah compliance, knowing that those investments are old and not new and should be exited as soon as possible. SSB were informed that Bank's management endeavored to comply with this decision, however due to market circumstances and local and International changes they weren't able to achieve the requirement during the year 2017-2018

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

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

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

Accordingly, as the Shari'ah Supervisory Board issues its report to confirm the legitimacy of the business, investments, funds, and statements of Venture Capital Bank during this year, it commends the Almighty Allah for this success in the business.

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

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

We praise to Allah the Lord of the worlds.

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

Executed on Saturday, 19/01/1439 H, corresponding to the 29/09/2018

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Licensed as an Islamic Wholesale Bank by the CBB.

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 2018.

As predicted, this proved to be another highly challenging period for the regional investment banking industry. The year was marked by further economic, market and oil price volatility; heightened geopolitical tensions at a global and regional level; and ongoing economic reforms and fiscal measures by GCC governments which continued to negatively impact the investment climate.

Against this challenging backdrop, the Board and Executive Management held its annual strategic workshop to review progress in implementing the Bank's strategic realignment that was introduced the previous year. This entails adoption of a rigorous qualitative-based approach towards selecting new investments and strengthening the post-acquisition management of our investment portfolio. The workshop 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.

The results of the concerted efforts by the Board and Management during the year were very positive with four investment exits being concluded with aggregate proceeds of USD 105 million, and a number of additional exits approaching the final stages of execution. The Bank also commenced negotiations for one new investment acquisition. Cash proceeds received by VCBank from exits amounted to USD 28.1 million while USD 76.7 million was returned to investors. In addition, the Bank successfully raised USD 43.6 million from retail and strategic investors for a number of existing investments. This demonstrates a good level of achievement and shows continued progress in our restructuring which will lead us to realise growth in shareholders' equity despite the negative effects of the investment climate.

VENTURE CAPITAL BANK

These successful investment activities, together with steps taken in the prior year to clean up the investment portfolio and de-risk the balance sheet, resulted in VCBank reporting an improved financial performance for fiscal 2018.

The Bank reported total revenue of USD 16.19 million compared with USD 8.59 million in fiscal 2017; while operating expenses excluding financing costs reduced to USD 10.36 million from USD 12.47 million in the previous year. After booking fair value losses and impairment provisions of USD 8.83 million (FY 2017: USD 44.71 million), the Bank reported a net loss of USD 5.25 million for fiscal 2018 compared with a net loss of USD 53.65 million in the prior year.

VCBank maintained a strong capital base, with total balance sheet assets of USD 292.16 million as at 30 June 2018 compared with USD 282.95 million at the end of the previous year. Shareholders' equity at the year-end stood at USD 165.46 million versus USD 170.64 million at the end of fiscal 2017, while the Bank's capital adequacy ratio (CAR) improved to 19 per cent at 30 June 2018 compared with 15 per cent at the end of fiscal 2017.

During the year, we continued to strengthen our institutional capability. Particular focus was placed on ensuring that the Bank maintains a robust corporate infrastructure through which to support our business divisions. We also enhanced our corporate governance and risk management frameworks to maintain compliance with changing regulatory requirements, and to protect the Bank from the impact of increasingly volatile market conditions.

It is with deep regret that I report the sad demise of Mr. Khalid Abdulaziz Al Mediheem on 21 February 2018 after a long illness. He served the Bank diligently as an independent and non-executive director for the past five years, during which time the Board benefited greatly from his considerable industry knowledge, business acumen and wise counsel. As such, Khalid's presence on the Board will be sorely missed. May God rest his soul in eternal peace.

Looking ahead, next year is likely to be yet another highly-testing and unpredictable period, with a continuation of the same issues that characterised fiscal 2017, plus the new threat of a global trade downturn. However, improved oil prices, together with the emerging benefits of regional economic and fiscal reforms, should have a positive impact on GCC economies in the medium to long term.

It is encouraging to note that VCBank enters the next fiscal year in a much stronger position due to its clean balance sheet, healthy portfolio, adequate liquidity and attractive pipeline of new investment deals and exits. The Bank also benefits from a highly-supportive Board of Directors, a stable and well-experienced Management Team, and a very loyal client base.

The Board has full confidence in the ability of Management to maintain our realigned strategic focus through which to capture new business opportunities and return the Bank to profitability. As such, we remain cautiously optimistic about the Bank's prospects in FY 2019, despite the many challenges and uncertainties that lie ahead.

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

Grateful acknowledgements are also due to the Central Bank of Bahrain, the Ministry of Industry, 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; and to our Shari'ah Supervisory Board for its ongoing guidance and supervision. I also pay special tribute to the Bank's management and staff for their highly-valued dedication and professionalism in yet another challenging year.

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 M R H 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 Audit of 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 2018, 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 consolidated financial position of the Group as of 30 June 2018, the results of its consolidated operations, its consolidated cash flows, consolidated 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 2018 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 2018
Manama, Kingdom of Bahrain

Venture Capital Bank B.S.C. (c)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Note	***30 June 2018 USD '000***	*30 June 2017 USD '000*
ASSETS			
Balances and placements with banks	8	**7,326**	7,571
Investments	9	**151,516**	161,354
Investments in associates and joint venture accounted under the equity method	10	**26,666**	26,960
Murabaha financing to investee companies	11	**38,597**	34,750
Receivables	12	**33,420**	16,630
Funding to project companies	13	**3,025**	-
Other assets	14	**23,795**	27,610
Property and equipment	15	**7,816**	8,077
TOTAL ASSETS		**292,161**	282,952
LIABILITIES			
Islamic financing payables	16	**109,155**	101,674
Employee accruals		**2,092**	2,723
Other liabilities	17	**15,456**	7,910
Total liabilities		**126,703**	112,307
EQUITY			
Share capital	18	**190,000**	190,000
Statutory reserve	18	**5,859**	5,859
Foreign currency translation reserve		**(71)**	(130)
Accumulated losses		**(30,330)**	(25,084)
Total equity		**165,458**	170,645
TOTAL LIABILITIES AND EQUITY		**292,161**	282,952
OFF BALANCE SHEET ITEMS			
Equity of investment account holders		**2,106**	2,744

Abdulfatah Mohd. Rafie Marafie
Chairman

Abdullatif M. Janahi
Board Member
and Chief Executive Officer

The attached notes 1 to 36 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended 30 June 2018

	Note	***30 June 2018 USD '000***	*30 June 2017 USD '000*
REVENUE			
Income from investment banking services	19	**1,218**	4,795
Gain on sale of investment	20	**6,338**	-
Finance income	21	**4,785**	12
Dividend income		**1,406**	834
Rental and other income	22	**2,447**	2,945
Total revenue		**16,194**	8,586
OTHER LOSSES			
Fair value losses on investments at fair value through profit or loss	23	**(3,833)**	(38,266)
Total income (loss)		**12,361**	(29,680)
EXPENSES			
Staff costs	24	**5,745**	6,194
Travel and business development expenses		**431**	529
Legal and professional fees		**773**	1,357
Finance expense	21	**5,623**	6,141
Depreciation	15	**385**	413
Other expenses	26	**3,026**	3,978
Total expenses		**15,983**	18,612
LOSS BEFORE IMPAIRMENT PROVISIONS AND SHARE OF LOSSES OF ASSOCIATES AND JOINT VENTURE		**(3,622)**	(48,292)
Impairment provisions charged	25	**(1,492)**	(6,448)
Recovery of impaired receivables	25	**-**	1,344
Share of losses of associates and joint venture - net	10	**(132)**	(250)
NET LOSS FOR THE YEAR		**(5,246)**	(53,646)

Abdulfatah Mohd. Rafie Marafie
Chairman

Abdullatif M. Janahi
Board Member
and Chief Executive Officer

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

	Note	*Share capital USD '000*	*Statutory reserve USD '000*	*Foreign currency translation reserve USD '000*	*Accumulated losses USD '000*	*Total USD '000*
Balance at 1 July 2017		190,000	5,859	(130)	(25,084)	170,645
Net loss for the year		-	-	-	(5,246)	(5,246)
Foreign currency translation difference on investment in an associate	10	-	-	59	-	59
Balance at 30 June 2018		**190,000**	**5,859**	**(71)**	**(30,330)**	**165,458**
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	10	-	-	(3)	-	(3)
Balance at 30 June 2017		190,000	5,859	(130)	(25,084)	170,645

The attached notes 1 to 36 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

	Note	**30 June 2018 USD '000**	30 June 2017 USD '000
OPERATING ACTIVITIES			
Net loss for the year		**(5,246)**	(53,646)
Adjustments for non-cash items:			
Gain on sale of investments		**(5,263)**	-
Share of results of associates and joint venture accounted under the equity method	10	**132**	250
Impairment provisions charged - net	25	**1,492**	6,448
Depreciation	15	**385**	413
Dividend income		**(1,406)**	(834)
Fair value losses on investments at fair value through profit or loss - net	23	**3,833**	38,266
Operating loss before changes in operating assets and liabilities		**(6,073)**	(9,103)
Changes in operating assets and liabilities:			
Investments		**10,756**	(16,453)
Investments in associates and joint venture accounted under the equity method		**(192)**	616
Murabaha financing to investee companies		**(3,847)**	6,243
Receivables		**(16,790)**	20,429
Funding to project companies		**(3,025)**	4,231
Other assets		**3,695**	(10,051)
Employee accruals		**(631)**	(1,023)
Other liabilities		**7,546**	3,383
Net cash used in operating activities		**(8,561)**	(1,728)
INVESTING ACTIVITIES			
Dividends received		**900**	1,136
Property and equipment - net	15	**(124)**	(56)
Net cash from investing activities		**776**	1,080
FINANCING ACTIVITY			
Islamic financing payables		**7,481**	(60)
Net cash from (used in) financing activity		**7,481**	(60)
Foreign currency translation adjustments		**59**	(3)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(245)**	(711)
Cash and cash equivalents at beginning of the year		**7,571**	8,282
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**7,326**	7,571
Comprising:			
Balances in current and call accounts	8	**5,285**	7,441
Short-term placements	8	**2,041**	130
		7,326	7,571

The attached notes 1 to 36 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 2018

		Movements during the year				
2018	***Balance as at 1 July 2017 USD '000***	***Distribution USD '000***	***Fair value movement / (impairment) USD '000***	***Net loss USD '000***	***Bank's fees as an agent USD '000***	***Balance as at 30 June 2018 USD '000***
GCC Pre IPO Fund	**2,744**	**(91)**	**(111)**	**(436)**	**-**	**2,106**

		Movements during the year				
2017	*Balance as at 1 July 2016 USD '000*	*Distribution USD '000*	*Fair value movement / (impairment) USD '000*	*Net loss 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

	2018 USD '000	*2017 USD '000*
Investment in equities	**2,040**	2,742
Dividends receivable	**64**	-
Balances with banks	**2**	2
Total as at 30 June	**2,106**	2,744

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.

The attached notes 1 to 36 form part of these consolidated financial statements.

1 INCORPORATION AND ACTIVITIES

Incorporation

Venture Capital Bank B.S.C. (c) ("the Bank") was incorporated in the Kingdom of Bahrain on 26 September 2005 as a closed shareholding company under commercial registration (CR) number 58222 issued by the Ministry of Industry, 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 27 September 2018.

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 35 and 36.

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 2017
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements, for the year ended 30 June 2018, except for the adoption of new standards and interpretations effective for the financial year beginning on or after 1 January 2017.

FAS 27 - Investment Accounts
FAS 27 has replaced FAS 5 - 'Disclosures of Bases for Profit Allocation between Owner's Equity and Investment Account Holders' and FAS 6 - 'Equity of Investment Account Holders and their Equivalent'. Due to the adoption of this standard certain disclosures with respect to investment account holders and bases of profit allocation are enhanced without having any significant impact on these consolidated financial statements of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New standards, amendments and interpretations issued but not yet effective for adoption
The AAOIFI Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of the relevant standards and interpretations issued, which the Group reasonably expects to be applicable at a future date.

FAS 30 - Impairment, credit losses and onerous commitments
In November 2017, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued Financial Accounting Standard (FAS) 30 - Impairment, credit losses and onerous commitments, the standard supersedes the earlier FAS 11 "Provisions and Reserves" effective from the financial periods beginning on or after 1 January 2020, with early adoption permitted. The Group has set up a multidisciplinary implementation team with members from its Finance and Investment Post-acquisition department to achieve a successful and robust implementation. The project is managed by the Head of Financial Control Department and Head of Post Acquisition. The Group will early adopt FAS 30 at 1 July 2018 and currently is in the final phase of implementation, where by parallel run exercise is under process together with various level of validations.

Credit losses approach
The Group will recognize credit losses allowances based on a forward-looking Expected Credit Loss (ECL) approach on all established receivables and off-balance sheet exposures including guarantees, letters of credit, promise-based foreign exchange and other similar positions.

The Group will categorise its assets subject to credit losses into the following three stages in accordance with the FAS 30 methodology:

- **Stage 1** – Performing assets: asset(s) that has not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 months ECL.
- **Stage 2** – Underperforming assets: asset(s) that has significantly deteriorated in credit quality since origination. The credit losses will be recorded based on life time ECL.
- **Stage 3** – Impaired assets: For asset(s) that are impaired, the Group will recognize the impairment allowance based on life time ECL.

4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

New standards, amendments and interpretations issued but not yet effective for adoption (continued)

Credit losses approach (continued)
The Group will also consider the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs. The forward-looking information will include elements such as macroeconomic factors, e.g., fiscal deficit, GDP growth and other relevant economic factors.

To evaluate a range of possible outcomes, the Group intends to formulate various scenarios. For each scenario, the Group will derive an ECL and apply a probability weighted approach to determine the impairment allowance in accordance with the accounting standards requirements.

Impairment approach
The Group will recognize impairment losses on all other financing and investment assets and exposures subject to risks other than credit risk (other than inventories) and investments carried at fair value through income statement.

The impairment losses will be measured by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount will be the higher of its fair value less costs of disposal and its value in use.

Net realizable value approach
The Group will recognize impairment on inventories recognized as a result of financial transactions which are based on a trade based structure e.g. deferred payment sales including Murabaha, Salam or Istisna'a.

The Group subsequent to the initial recognition, will measure all inventories will be measured at the lower of cost and net realizable value. The net realisable value, is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale, considering the factors specific to the Group.

Provision for onerous contract or commitment to acquire an asset
The Group will recognise provision when the Group is obligated to acquire an asset under a future commitment or contracts permissible to be entered in the future, and it is expected that the obligation under the contract or commitment is higher than the economic benefits expected to flow through acquisition of such asset. In such situation, the Group will create a provision on this account reflecting the expected losses arising on such transaction.

Expected impact
The Group has reviewed its receivables and assets and is expecting the following impact from the early adoption of FAS 30 on 1 July 2018:

According to transitional provisions for initial application of FAS 30, the Group is allowed to recognise any difference between previous carrying amount under FAS 11 and the carrying amount of losses that is attributable to the shareholders at the beginning of the annual reporting period (that includes the date of initial application) in opening retained earnings, and the cumulative charge attributable to shareholders, including unrestricted investment account holders, related to previous periods shall be adjusted with an allocation from the respective Investment Risk Reserve (and from the respective Profit Equalization Reserve in case of a shortfall) with due Shari'ah approvals. In case of any remaining shortfall, a temporary transfer with Shari'ah approval may be made from shareholders' equity.

Based on 30 June 2018 data and the current implementation status of FAS 30, the Group estimates the adoption of FAS 30 to lead to an overall reduction in the Group's total shareholders' equity ranging between 2% - 3%. This reduction is predominately driven by the impairment requirements of FAS 30.

The new standard also introduces disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption.

4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

New standards, amendments and interpretations issued but not yet effective for adoption (continued)

Governance and controls
The Group has set up an internally managed FAS 30 programme that includes subject matter experts on methodology, data sourcing and modelling and reporting. The Group's work to date has covered performing and developing an impairment methodology to support the calculation of the Expected Credit Loss (ECL) allowance. The Group developed its approach for assessing significant increase in credit risk ("SICR"), incorporating forward looking information, including macro-economic factors and preparing the required assessment worksheet programme. The Group has performed a full end to end parallel run based on 30 June 2018 data to assess procedural readiness. Overall governance of the program's implementation is through Finance Control, Risk and Internal Audit. The Group is in the process of enhancing its governance framework to implement appropriate validations and controls over new key processes and significant areas of judgment such as SICR determining and applying forward looking information in multiple economic scenarios and computation of ECL.

Caveat:
The estimated decrease in shareholders' equity includes the impact of both balance sheet changes and the increase to credit impairment provisions compared to those applied at 30 June 2018 under FAS 11. The assessment above is a point in time estimate and is not a forecast. The actual effect of the implementation of FAS 30 on the Group could vary significantly from this estimate. The Group continues to refine models, methodologies and controls, and monitor developments in regulatory rule making in advance of FAS 30 early adoption on 1 July 2018. Although parallel runs were carried out in the latter half of the Group's current financial year, the new systems and associated controls in place have not been operational for a more extended time. As a result, the Group has not finalized the testing and assessment of controls over its new IT systems and changes to its governance framework. All estimates are based on the Group's current interpretation of the requirements of FAS 30, reflecting industry guidance and discussions to date.

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

Share capital
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.

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.

(v) Rental income
Rental income is recognised in the statement of comprehensive income on a straight-line basis over the term of the operating lease contract.

(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.

(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 28.

(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

Wholly owned subsidiaries of the Group are consolidated as follows. There is no change in the percentage holding of the subsidiaries during the year.

Name of subsidiary	Year of incorporation	% holding	Country of incorporation	Principal activities
Gulf Projects Company W.L.L.	1998	100%	Kingdom of Bahrain	To own an interest in and operate the Venture Capital Bank Building.
The Lounge Serviced Offices Company W.L.L.	2007	100%	Kingdom of Bahrain	To own, operate and manage serviced offices in Bahrain and regionally.
GMCB Co. W.L.L. *	2008	50.59%	Kingdom of Bahrain	To invest in a medical facility in the Kingdom of Bahrain.

* The Group's investment in GMCB Co. W.L.L. is designated as investment at fair value through profit or loss as allowed by IFRS 10.

7 CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

At 30 June 2018	***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	**-**	**-**	**7,326**	**7,326**
Investments	**99,697**	**51,819**	**-**	**151,516**
Murabaha financing to investee companies	**-**	**-**	**38,597**	**38,597**
Receivables	**-**	**-**	**33,420**	**33,420**
Funding to project companies	**-**	**-**	**3,025**	**3,025**
Other assets	**-**	**-**	**23,704**	**23,704**
TOTAL FINANCIAL ASSETS	**99,697**	**51,819**	**106,072**	**257,588**
LIABILITIES				
Islamic financing payables	**-**	**-**	**109,155**	**109,155**
Other liabilities	**-**	**-**	**12,797**	**12,797**
TOTAL FINANCIAL LIABILITIES	**-**	**-**	**121,952**	**121,952**
OFF BALANCE SHEET ITEMS				
Equity of investment account holders	**-**	**2,040**	**66**	**2,106**

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
Funding to project companies	-	-	-	-
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

8 BALANCES AND PLACEMENTS WITH BANKS

	30 June 2018 USD '000	*30 June 2017 USD '000*
Balances in current and call accounts	**5,285**	7,441
Short-term placement	**2,041**	131
Less: Deferred profits	**-**	(1)
	7,326	7,571

Short-term placement comprises wakala and mudaraba deal with a locally incorporated Islamic bank at expected profit rate of 2% and 1.85% (2017: 1.5%) and maturing within 90 days of initial placement.

9 INVESTMENTS

	30 June 2018 USD '000	*30 June 2017 USD '000*
Investments at fair value through profit or loss		
Quoted equities held for trading	**3,951**	4,582
Unquoted:		
Equities	**89,112**	93,398
Fund	**6,634**	7,634
	99,697	105,614
Available-for-sale investments ("AFS")		
Quoted equities	**-**	1,305
Unquoted equities	**37,859**	47,315
Short term liquidity certificates	**13,960**	7,120
	51,819	55,740
	151,516	161,354

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 2018 USD '000	*30 June 2017 USD '000*
Real estate projects	**34,735**	27,012
Business development projects	**12,772**	12,761
Healthcare projects	**3,730**	14,080
Financial services	**582**	582
	51,819	54,435

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 2018***	*30 June 2017*
Mozon Holding SA	Investment development	Kingdom of Morocco	**20.00**	20.00
Dari Holdings (under liquidation)	Real estate development	Kingdom of Bahrain	**43.00**	43.00
Venture Capital Fund Bahrain	Small & medium enterprises investment fund	Kingdom of Bahrain	**30.00**	30.00

			% holding	
Name of joint venture	***Nature of business***	***Country of incorporation***	***30 June 2018***	*30 June 2017*
Global Real Estate Co. W.L.L.	Real estate development	Kingdom of Bahrain	**50**	50

The carrying value comprises:	***30 June 2018 USD '000***	*30 June 2017 USD '000*
Associates	**1,733**	2,084
Joint venture	**24,933**	24,876
	26,666	26,960

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

	30 June 2018 USD '000	*30 June 2017 USD '000*
At 1 July	**26,960**	28,046
Acquisitions / additional investments during the year	**133**	-
Capitalisation of funding*	**-**	302
Foreign currency differences	**59**	(2)
Recalssified as investment in subsidiary at fair value through profit and loss	**-**	(916)
Impairment provisions charged	**(354)**	(220)
Share of losses of associates and joint venture, net	**(132)**	(250)
At 30 June	**26,666**	26,960

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

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

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

	30 June 2018 USD '000	*30 June 2017 USD '000*
Total assets	**76,084**	77,459
Total liabilities	**22,000**	22,664
Total revenues for the year	**117**	345
Total net loss for the year	**(112)**	(233)

11 MURABAHA FINANCING TO INVESTEE COMPANIES

	30 June 2018 USD '000	*30 June 2017 USD '000*
Financing to an investee companies in the following sectors:		
Shipping	**37,199**	34,750
United Kingdom real estate	**1,398**	-
At 30 June	**38,597**	34,750

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 2018 USD '000	*30 June 2017 USD '000*
Receivable from investment banking services	**26,384**	11,031
Receivable on sale of investment	**11,329**	10,167
	37,713	21,198
Less: Specific impairment provision	**(4,293)**	(4,568)
	33,420	16,630

Refer to note 25 for movement in impairment provision.

13 FUNDING TO PROJECT COMPANIES

	30 June 2018 USD '000	*30 June 2017 USD '000*
Gross funding	**3,095**	12,067
Less: Impairment provision	**(70)**	(12,067)
	3,025	-

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. During the year fully provisioned funding totalling USD 11,997 thousand was written off following the formal liquidation of the project company concerned. Refer to note 25 for movement in impairment provision.

14 OTHER ASSETS

	30 June 2018 USD '000	30 June 2017 USD '000
Advances to acquire investments	**21,773**	25,232
Project costs recoverable	**1,864**	1,871
Dividend receivable	**904**	398
Other receivables	**3,309**	4,442
Less: Impairment provision	**(4,055)**	(4,333)
	23,795	27,610

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 2017	10,098	1,804	4,697	496	17,095
Additions during the year	-	10	114	-	124
At 30 June 2018	**10,098**	**1,814**	**4,811**	**496**	**17,219**
Depreciation					
At 1 July 2017	2,088	1,764	4,697	469	9,018
Charge for the year	278	42	55	10	385
At 30 June 2018	**2,366**	**1,806**	**4,752**	**479**	**9,403**
Net book value at 30 June 2018	**7,732**	**8**	**59**	**17**	**7,816**
Net book value at 30 June 2017	8,010	40	-	27	8,077

16 ISLAMIC FINANCING PAYABLES

		30 June 2018 USD '000	30 June 2017 USD '000
Medium term Islamic financing payables	16.1	**70,687**	70,687
Short term Islamic financing payables	16.2	**38,468**	30,987
		109,155	101,674

16.1 This represents a medium term wakala financing raised in January 2017 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% (2017: 2.75%).

17 OTHER LIABILITIES

		30 June 2018 USD '000	30 June 2017 USD '000
Accounts payable	17.1	**12,797**	4,825
Provisions and accruals		**1,332**	1,552
Deferred income		**1,224**	1,272
Other		**103**	261
		15,456	7,910

17.1 Account payable as at 30 June 2018 includes a short term advance of USD 10 million obtained from an investor at a profit rate of approximately 10% per annum which was fully settled subsequent to the year end.

18 SHARE CAPITAL

	30 June 2018 USD '000	30 June 2017 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. During the year, there has been no transfer to statutory reserve made for 2018 until the Group's accumulated losses is cleared and profits are achieved. 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. There has been no movement in the reserve during the years ended 30 June 2018 and 30 June 2017. As at 30 June 2018, the balance in the reserve is nil (30 June 2017: USD nil). Upon disposal of such assets, the related cumulative gains or losses are transferred to the consolidated statement of income.

19 INCOME FROM INVESTMENT BANKING SERVICES

	30 June 2018 USD '000	30 June 2017 USD '000
Investment banking and structuring income	**1,000**	-
Investment management and arrangement fees	**218**	4,795
	1,218	4,795

20 GAINS FROM SALE OF INVESTMENTS

	30 June 2018 USD '000	*30 June 2017 USD '000*
Gain on sale of available-for-sale investments - net	**4,237**	-
Gain on sale of investment in associate	**938**	-
Gain on sale of investment designated at fair value through profit or loss	**1,163**	-
	6,338	-

21 FINANCE INCOME AND EXPENSE

	30 June 2018 USD '000	*30 June 2017 USD '000*
Finance income		
Income from placements with financial institutions	**133**	12
Income from funding to project companies	**4,652**	-
	4,785	12
Finance expense		
Cost of Islamic financing payables	**(5,623)**	(6,141)
Net finance expense	**(838)**	(6,129)

22 RENTAL AND OTHER INCOME

	30 June 2018 USD '000	*30 June 2017 USD '000*
Rental and property management income	**544**	1,621
Other income	**1,903**	1,324
	2,447	2,945

Other income mainly comprises income from yielding real estate investments and liquidity program certificates, plus cost recoveries.

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

	30 June 2018 USD '000	*30 June 2017 USD '000*
Trading securities	**(631)**	(456)
Investments designated at fair value through profit or loss - net	**(3,202)**	(37,810)
	(3,833)	(38,266)

24 STAFF COSTS

	30 June 2018 USD '000	*30 June 2017 USD '000*
Salaries and benefits	**5,385**	5,727
Social insurance expenses	**348**	406
Other staff expenses	**12**	61
	5,745	6,194

25 IMPAIRMENT PROVISIONS CHARGED

	Specific impairment provisions relating to						
30 June 2018	***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	(22,752)	(5,393)	(4,568)	(12,067)	(2,971)	(1,362)	**(49,113)**
Impairment provisions charged	(1,018)	(354)	-	-	(120)	-	**(1,492)**
Write-offs	3,067	5,173	275	11,997	398	-	**20,910**
	2,049	**4,819**	**275**	**11,997**	**278**	**-**	**19,418**
Provision at the end of the year	**(20,703)**	**(574)**	**(4,293)**	**(70)**	**(2,693)**	**(1,362)**	**(29,695)**

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

25 IMPAIRMENT PROVISIONS CHARGED (continued)

	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)	(2,505)	(1,362)	(45,314)
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
Provision at the end of the year	(22,752)	(5,393)	(4,568)	(12,067)	(2,971)	(1,362)	(49,113)

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

26 OTHER EXPENSES

	30 June 2018 USD '000	*30 June 2017 USD '000*
Rent and office expenses	**1,626**	1,763
Publicity, conferences and promotion	**96**	125
Board of directors and Shari'a supervisory board fees and expenses	**461**	539
Exchange loss	**(52)**	283
Regulatory penalties	**-**	97
Project management costs	**853**	1,157
Other	**42**	14
	3,026	3,978

27 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.

27 RELATED PARTY TRANSACTIONS (continued)

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

30 June 2018	*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	-	-	210	**210**
Investments	19,838	-	6,634	**26,472**
Investments in associates and joint venture accounted under the equity method	26,666	-	-	**26,666**
Murabaha financing to investee companies	37,199	-	-	**37,199**
Other assets	5,414	-	800	**6,214**
Liabilities				
Employee accruals	-	1,503	-	**1,503**
Other liabilities	-	-	423	**423**
Income				
Share of loss of associates and joint venture accounted for using the equity method	(132)	-	-	**(132)**
Other income	-	-	754	**754**
Expenses (excluding compensation for key management personnel)				
Impairment allowances against receivables	354	-	-	**354**
Commitments and contingencies	26,368	-	-	**26,368**

27 RELATED PARTY TRANSACTIONS (continued)

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
Placements with financial institutions	-	-		-
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
Other assets	5,414	-	684	6,098
Liabilities				
Employee accruals	-	1,503	-	1,503
Other liabilities	-	-	360	360
Income				
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 receivables	717	-	-	717
Commitments and contingencies	18,726	-	-	18,726

27 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 2018		*30 June 2017*	
	Number of Shares	***Number of Directors***	*Number of Shares*	*Number of Directors*
Less than 1%	**5,952,312**	**7**	5,952,312	7
1% up to less than 5%	**16,654,724**	**4**	16,654,724	4
5% and less than 10%	**25,179,616**	**2**	25,179,616	2
	47,786,652	**13***	47,786,652	13*

* One director representing a corporate shareholder also holds a personal ownership of 1.19%, hence total directors for the year ended 2018 are 12 directors (2017: 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 2018 USD '000	*30 June 2017 USD '000*
Board of directors' attendance fees	**277**	342
Salaries and other short-term benefits	**1,715**	1,699
	1,992	2,041

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 2018 and 2017.

28 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 2018 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 2018 is US cents nil for every share held (2017: US cents nil 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.

29 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 (2017: nil).

30 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.

31 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 35 (c).

30 June 2018	*Up to 3 months USD '000*	*3 to 6 months USD '000*	*6 months to 1 year USD '000*	*Total 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	7,326	-	-	7,326	-	-	-	**7,326**
Investments	12,770	1,190	-	13,960	-	-	137,556	**151,516**
Investments in associates and joint venture accounted under the equity method	-	-	-	-	-	-	26,666	**26,666**
Murabaha financing to investee companies	400	1,798	400	2,598	35,999	-	-	**38,597**
Receivables	27,719	2,753	-	30,472	2,948	-	-	**33,420**
Funding to project companies	-	3,025	-	3,025	-	-	-	**3,025**
Other assets	1,807	2,660	409	4,876	11	15	18,893	**23,795**
Property and equipment	-	-	-	-	-	-	7,816	**7,816**
Total assets	**50,022**	**11,426**	**809**	**62,257**	**38,958**	**15**	**190,931**	**292,161**
Liabilities								
Islamic financing payables	38,468	-	-	38,468	70,687	-	-	**109,155**
Employee accruals	-	-	-	-	438	-	1,654	**2,092**
Other liabilities	11,855	776	141	12,772	3	2,648	33	**15,456**
Total liabilities	**50,323**	**776**	**141**	**51,240**	**71,128**	**2,648**	**1,687**	**126,703**
Net liquidity gap	**(301)**	**10,650**	**668**	**11,017**	**(32,170)**	**(2,633)**	**189,244**	**165,458**
Cumulative liquidity gap	**(301)**	**10,349**	**11,017**	**11,017**	**(21,153)**	**(23,786)**	**165,458**	**165,458**
Commitments and contingencies	**-**	**186**	**302**	**488**	**29,005**	**-**	**10,000**	**39,493**

31 MATURITY PROFILE (continued)

30 June 2017	*Up to 3 months USD '000*	*3 to 6 months USD '000*	*6 months to 1 year USD '000*	*Total 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 CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND EQUITY OF INVESTMENT ACCOUNT HOLDERS

a) Industry sector

30 June 2018	*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	-	7,326	-	-	-	-	-	-	**7,326**
Investments	10,553	10,001	50,252	4,845	8,652	962	4,929	61,322	**151,516**
Investment in associates and joint venture accounted under the equity method	-	-	24,932	-	-	-	-	1,734	**26,666**
Murabaha financing to investee companies	-	-	1,398	-	-	-	37,199	-	**38,597**
Receivables	-	-	3,754	-	14,740	-	-	14,926	**33,420**
Funding to project companies	-	625	2,400	-	-	-	-	-	**3,025**
Other assets	5,414	25	2,981	-	4	-	-	15,371	**23,795**
Property and equipment	-	-	7,363	-	-	-	-	453	**7,816**
Total assets	**15,967**	**17,977**	**93,080**	**4,845**	**23,396**	**962**	**42,128**	**93,806**	**292,161**
Liabilities									
Islamic financing payable	-	37,676	-	-	-	-	-	71,479	**109,155**
Employee accruals	-	-	-	-	-	-	-	2,092	**2,092**
Other liabilities	-	-	-	-	-	-	-	15,456	**15,456**
Total liabilities	**-**	**37,676**	**-**	**-**	**-**	**-**	**-**	**89,027**	**126,703**
Commitments and contingencies (note 34)	**25,138**	**10,000**	**371**	**-**	**975**	**-**	**-**	**3,009**	**39,493**
Equity of investment account holders	**-**	**1,563**	**-**	**-**	**-**	**-**	**-**	**543**	**2,106**

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

a) Industry sector (continued)

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 34)	17,363	10,000	1,304	-	1,044	-	-	-	29,711
Equity of investment account holders	-	2,298	-	-	-	-	-	446	2,744

32 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 2018	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	7,326	-	-	-	-	**7,326**
Investments	74,314	62,450	7,034	2,789	4,929	**151,516**
Investment in associates and joint venture accounted under the equity method	25,505	1,161	-	-	-	**26,666**
Murabaha financing to investee companies	-	-	1,398	-	37,199	**38,597**
Receivables	29,501	2,705	-	1,214	-	**33,420**
Funding to project companies	3,025	-	-	-	-	**3,025**
Other assets	11,351	8,188	3,455	801	-	**23,795**
Property and equipment	7,816	-	-	-	-	**7,816**
Total assets	**158,838**	**74,504**	**11,887**	**4,804**	**42,128**	**292,161**
Liabilities						
Islamic financing payable	109,155	-	-	-	-	**109,155**
Employee accruals	2,092	-	-	-	-	**2,092**
Other liabilities	15,456	-	-	-	-	**15,456**
Total liabilities	**126,703**	-	-	-	-	**126,703**
Commitments and contingencies	**14,356**	**25,137**	-	-	-	**39,493**
Equity of investment account holders	**2,106**	-	-	-	-	**2,106**

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

(b) Geographic region (continued)

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 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.

34 COMMITMENTS AND CONTINGENCIES

The Group has issued financial guarantees totaling USD 29.01 million (30 June 2017: USD 15.86 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 2017: USD nil) and commitments to invest of USD 10.49 million (30 June 2017: USD 13.85 million).

35 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, murabaha financing to investee companies, receivables, 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 2018. The Group holds collateral comprising the pledge of four ships against its funding exposure to an investee in the shipping sector totalling approximately USD 35 million as at 30 June 2018 (30 June 2017: USD 35 million). In the opinion of management, the value of the collateral based on recent ships valuations data, is considered to sufficiently cover the total exposure.

35 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 31.

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 2018 USD '000	*30 June 2017 USD '000*
Receivables	**7,530**	7,684
Funding to project companies	**694**	12,067
Other assets	**2,844**	3,255
Total	**11,068**	23,006

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 32.

At 30 June 2018, the total credit exposure to individual counterparties which comprised 10% or more of the Group's equity was USD 119.5 million relating to four counterparties (30 June 2017: USD 132.2 million relating to four counterparties).

c) Liquidity risk

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

35 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 31 for the expected maturity profile of assets and liabilities.

30 June 2018	***Gross undiscounted cash flows***					
	Up to 3 months USD '000	***3 to 6 months USD '000***	***6 months to 1 year USD '000***	***1 to 3 years USD '000***	***Over 3 years USD '000***	***Total USD '000***
Liabilities						
Islamic financing payables	38,553	-	-	77,333	-	**115,886**
Employee accruals	1,654	-	-	438	-	**2,092**
Other liabilities	11,888	776	141	3	2,648	**15,456**
Total financial liabilities	**52,095**	**776**	**141**	**77,774**	**2,648**	**133,434**
Commitments and contingencies	**10,000**	**186**	**302**	**29,005**	-	**39,493**
Equity of investment account holders	**66**	-	-	**2,040**	-	**2,106**

30 June 2017	*Gross undiscounted cash flows*					
	Up to 3 months USD '000	*3 to 6 months USD '000*	*6 months to 1 year USD '000*	*1 to 3 years USD '000*	*Over 3 years USD '000*	*Total USD '000*
Liabilities						
Islamic financing payables	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

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.

35 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 2018	*30 June 2017*
Placements with financial institutions	**2.00%**	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 2018 USD '000	*30 June 2017 USD '000*
100 bps parallel increase / (decrease)		
Placements with financial institutions	**± 20**	± 1
Funding to project companies	**± 30**	± 0
Islamic financing payables	**± 1,092**	± 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 listed investments denominated in Kuwaiti Dinars and Great Britain Pounds. The Group seeks to manage currency risk by continually monitoring exchange rates and exposures.

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

	30 June 2018 USD '000	*30 June 2017 USD '000*
Kuwaiti Dinars	**3,817**	4,444
Great Britain Pounds	**1,494**	2,703

35 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 2018 and 30 June 2017 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 2018		*30 June 2017*	
	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%	**382**	-	444	-
Great Britain Pounds	+10%	**149**	-	270	-
Kuwaiti Dinars	-10%	**(382)**	-	(444)	-
Great Britain Pounds	-10%	**(149)**	-	(270)	-

(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 2018		*30 June 2017*	
		Effect on profit USD '000	***Effect on equity USD '000***	*Effect on profit USD '000*	*Effect on equity USD '000*
Trading securities	+1%	**40**	-	46	-
Available-for-sale	+1%	-	-	-	13
Trading securities	-1%	**(40)**	-	(46)	-
Available-for-sale	-1%	-	-	-	(13)

35 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 2018 USD '000	*30 June 2017 USD '000*
Total risk weighted assets	**861,098**	1,121,121
CET1 capital	**165,457**	170,645
Additional Tier 1	**-**	-
Tier 2 capital	**1,362**	1,362
Total regulatory capital	**166,819**	172,007
Total regulatory capital expressed as a percentage of total risk weighted assets	**19.37%**	15.34%
Minimum requirement	**12.5%**	12.5%

Total Common Equity Tier 1 capital comprises share capital, share premium, statutory reserve and retained earnings, minority interest in consolidated subsidiaries less gross unrealised loss arising from fair valuing equities.

Tier 2 capital comprises unrealised gains arising from fair valuing equity securities supported by independant valuations. 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.

36 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 2018	***Level 1 USD 000***	***Level 2 USD 000***	***Level 3 USD 000***	***Total USD 000***
Held for trading	**3,951**	**-**	**-**	**3,951**
Fair value through profit or loss	**-**	**-**	**95,746**	**95,746**
Available-for-sale	**-**	**-**	**-**	**-**
	3,951	**-**	**95,746**	**99,697**

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

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 2018 USD 000	*30 June 2017 USD 000*
At 1 July	**101,032**	117,982
Fair value losses recognised in the consolidated statement of income - net	**(3,202)**	(37,810)
(Sale of) / additional investments during the year - net	**(2,084)**	20,860
At 30 June	**95,746**	101,032

36 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 capitalization of cash flows of the last year of the estimate. The discount rates used for computing the present value of future cash flows range from 7.3% to 16.3%. 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 1,619 thousand, whereas a 1% decrease in the discount rate would increase the fair values by approximately USD 1,723 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 3,139 thousand or reduce the fair values by approximately USD 3,139 thousand respectively.

Investments amounting to USD 51,819 thousand (30 June 2017: USD 54,435 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.