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

SHARI'A SUPERVISORY BOARD REPORT,
CHAIRMAN'S STATEMENT,
INDEPENDENT AUDITORS' REPORT
AND CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2020

VENTURE CAPITAL BANK

In the name of Allah the Merciful, the Compassionate

Report of the Shari'ah Supervisory Board for period from 01/07/2019 to 30/06/2020

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 01/07/2019 to 30/06/2020.

It has studied and discussed, with the Bank's management, the financial statements and the income statement for the period from 01/07/2019 to 30/06/2020.

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 elements, 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 circumstance and local and international changes they weren't able to achieve the requirement during the year 2019-2020.

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.

Zakat was calculated in accordance with the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards. 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 as been presented.

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 Tuesday, 19/02/1442 H, corresponding to the 06/10/2020

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CHAIRMAN'S STATEMENT

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

On behalf of the Board of Directors, I would like to present the annual report and consolidated financial statements of Venture Capital Bank (VCBank) for the fiscal year ended 30 June 2020. Without doubt, this proved to be one of the most testing periods to date for the regional investment banking industry.

Investor sentiment remained muted throughout the year due to the continued headwinds of economic and market volatility; together with depressed oil prices, heightened regional geopolitical tensions, and deteriorating global trade relations. This challenging scenario was exacerbated by the impact of the COVID-19 pandemic during the second half of the Bank's fiscal year.

These factors seriously affected the performance of the Bank's investment portfolio, against which we booked impairments and fair value losses totaling USD 74.44 million. In addition, we were unable to execute new investment banking transactions during the year due to capital adequacy-related regulatory restrictions imposed by the Central Bank of Bahrain. This hindered our revenue-generating capability while continuing to incur operating costs, albeit at a reduced level due to remedial actions introduced during the previous year. Accordingly, VCBank is reporting a loss of USD 80.26 million for fiscal 2020 compared with a loss of USD 58.18 million for the previous year.

In response to this unsatisfactory situation, the Board and Management have been working closely together to address a number of key issues. These include restructuring the Management team; deleveraging the balance sheet; focusing on investment exits; improving regulatory compliance; enhancing the operating infrastructure; and progressing plans for the Bank's license conversion.

THROUGH PARTNERSHIP COMES GROWTH - THROUGH EXPERIENCE COMES STRENGTH

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To succeed the former Chief Executive Officer, the Board appointed Mr. Robert Wages as Acting CEO in addition to his role as Head of investments and Post-Acquisition; Given his successful track record, Robert is eminently qualified to lead the Management Team in implementing the Bank's strategic realignment and transformation.

I am pleased to report that the Bank's debt restructuring process is nearing completion. This will significantly improve the Bank's financial position by strengthening and deleveraging the balance sheet; and improving our capital adequacy ratio in line with regulatory requirements of the Central Bank of Bahrain (CBB).

We have also made significant progress in focusing on the Bank's investment exit strategy. Two partial exits in Egypt and the UK were concluded during the year; while two exits in Morocco and Qatar were at an advanced stage of negotiations. In addition, discussions regarding a further two exits in Oba Makarna in Turkey and Food Vest in Bahrain are underway.

A comprehensive review of our corporate governance and risk management frameworks was initiated during the year, in order to strengthen the Bank's regulatory compliance and operating procedures. At the same time, a major transformation of the Bank's information technology infrastructure commenced. This entails transferring key applications to the Cloud to create a more efficient virtual workflow environment; and also enhance communication and reporting channels with our shareholders and investors.

The Board acknowledges that there have been several governance and procedural inconsistencies relating to certain areas of the Bank's activities, which have led to large losses. Rest assured that we have taken all necessary steps to rectify such irregularities, and ensure that appropriate processes and procedures are in place to prevent them from happening again; and that the Bank will take the necessary legal measures to protect the rights of the shareholders.

Regarding the proposed change to the Bank's business model and regulatory licensing status, I am pleased to announce that we have presented a formal request to the CBB for the establishment of a new alternative asset management subsidiary, to be licensed under Rulebook Volume 4 Category 1 as an Investment Company. VCBank will adopt a holding company role, running off legacy investments and unwinding investment banking-related activities, and then relinquishing its current wholesale banking license, subject to final CBB approval. This proposal will be presented to shareholders for their consideration and approval at the forthcoming AGM / EGM planned for November 2020.

During the year, there were some changes to the Board of Directors. I would like to thank the outgoing Directors – Mr. Mohammed Abdulaziz Al Sarhan, Mr. Saleh Mohammed Al Shanfari, Dr. Abdulaziz Fahad Al Dakheel and Mr. Fahad Almoammar – for their respective contributions, and wish them well in their future endeavours. In turn, I welcome Dr. Muhammad Khalil A. Dahlawi and Dr. Issam. Z. Al Tawari, who recently joined the Board. Their extensive experience in investment banking, financial services, technology and real estate will be of great benefit to the Bank.

With deep regret, I report the sad demise of Shaikh Dr. Abdul Sattar Abu Ghuddah. A highly-respected Shari'ah scholar, he served diligently as a member of VCBank's Shari'ah Supervisory Board since inception. His deep understanding of Islamic finance and his wise counsel will be sorely missed. May God rest his soul in eternal peace.

Looking ahead, while we expect the macro-economic environment to remain extremely challenging, we hope that an eventual solution to the COVID-19 pandemic, God willing, will improve conditions. With our debt restructuring process close to completion and the licence conversion process at an advanced stage, the Board looks forward to VCBank being able to recommence its investment banking activities, generate much-needed revenue and cash flow, and return to profitability.

The Board and Management will do their best to work closely together on addressing all existing issues and future challenges, with the objective of re-establishing Venture Capital Bank as a soundly-governed, leading regional financial institution.

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 extremely 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 MohammedRafie Marafie
Chairman of the Board

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working world

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

Report on the audit of the consolidated financial statements

We have audited the accompanying consolidated financial statements of Venture Capital Bank B.S.C. (c) (the "Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position of as at 30 June 2020, 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.

Qualified opinion

In our opinion, except for the possible effect of the matter described in the *Basis of qualified opinion* section of our report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2020, and its consolidated financial performance, consolidated cash flows, consolidated changes in equity and consolidated changes in off-balance sheet equity of investment account holders for the year then ended in accordance with Financial Accounting Standards issued by AAOIFI.

Basis of qualified opinion

The consolidated statement of financial position as at 30 June 2020 contains a past due Wakala contract receivable amounting to USD 6,670 thousand, net of a 50% provision calculated by management. The Group has requested the counterparty to redeem the Wakala but this has not occurred at the date of approval of these consolidated financial statements. We have been unable to obtain sufficient corroborative audit evidence to support management's provision of 50%.

Material uncertainty related to going concern

Without further qualifying our opinion, we draw attention to note 2 to these consolidated financial statements. During the year ended 30 June 2020, the Group incurred a net loss of USD 80,261 thousand and as of that date, the Group's total liabilities with maturity up to 12 months exceeded its total assets with the same maturity by USD 65,706 thousand. Additionally, the Group had certain regulatory breaches, which are further discussed in note 3.1 to these consolidated financial statements. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

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

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 Chairman's statement is consistent with the consolidated financial statements.

Except for matters discussed in note 3.1, 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 2020 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position. With the exception of the matter referred to in the *Basis of qualified opinion* paragraph above, 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 Bank.

Ernst & Young

Partner's registration no. 145
8 November 2020
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Note	***30 June 2020 USD '000***	*30 June 2019 USD '000*
ASSETS			
Balances and placements with banks	10	**505**	10,175
Investments	11	**76,378**	110,982
Investments in associates and joint venture accounted under the equity method	12	**14,656**	22,701
Murabaha financing to investee companies	13	**472**	30,406
Wakala contract receivable	14	**6,670**	10,672
Receivables	15	**2,020**	1,976
Funding to project companies	16	**3,181**	5,693
Other assets	17	**8,909**	26,678
Right-of-use assets	18	**3,831**	-
Property and equipment	19	**4,947**	7,480
TOTAL ASSETS		**121,569**	226,763
LIABILITIES			
Islamic financing payables	20	**88,901**	109,692
Employee accruals		**796**	1,440
Ijarah liability	18	**3,894**	-
Other liabilities	21	**5,849**	13,145
Total liabilities		**99,440**	124,277
EQUITY			
Share capital	22	**190,000**	190,000
Statutory reserve	22	**5,859**	5,859
Foreign currency translation reserve		**(167)**	(71)
Accumulated losses		**(173,563)**	(93,302)
Total equity		**22,129**	102,486
TOTAL LIABILITIES AND EQUITY		**121,569**	226,763
OFF-BALANCE SHEET ITEMS			
Equity of investment account holders		**1,118**	1,887

Abdulfatah Mohd. Rafie Marafie
Chairman

Robert Coleman Wages
Acting Chief Executive Officer

The attached notes 1 to 42 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 30 June 2020

	Note	***30 June 2020 USD '000***	*30 June 2019 USD '000*
REVENUE			
Income from investment banking services - net	23	**1,612**	2,153
Gain on sale of investment	24	**781**	1,133
Finance income	25	**608**	4,072
Dividend income		**1,496**	1,400
Rental and other income	27	**3,626**	1,786
Total revenue		**8,123**	10,544
OTHER LOSSES			
Fair value losses on investments carried at fair value through profit or loss - net	28	**(31,004)**	(35,069)
Total loss		**(22,881)**	(24,525)
EXPENSES			
Staff costs	29	**3,578**	7,061
Travel and business development expenses		**134**	427
Legal and professional fees		**589**	790
Finance expense	25	**4,588**	5,369
Depreciation	18,19	**828**	342
Other expenses	31	**4,282**	3,645
Total expenses		**13,999**	17,634
LOSS BEFORE IMPAIRMENT PROVISIONS AND SHARE OF LOSSES OF ASSOCIATES AND JOINT VENTURE		**(36,880)**	(42,159)
Impairment of investments	11,12	**(27,603)**	(5,272)
Provision for credit losses	30	**(13,584)**	(10,691)
Impairment of property and equipment	19	**(2,251)**	-
Share of profit (losses) of associates and joint venture - net	12	**57**	(59)
NET LOSS FOR THE YEAR		**(80,261)**	(58,181)

Abdulfatah Mohd. Rafie Marafie
Chairman

Robert Coleman Wages
Acting Chief Executive Officer

The attached notes 1 to 42 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

	Note	***30 June 2020 USD '000***	*30 June 2019 USD '000*
OPERATING ACTIVITIES			
Net loss for the year		**(80,261)**	(58,181)
Adjustments for non-cash items:			
Gain on sale of investments	24	**(781)**	(1,133)
Share of results of associates and joint venture accounted under the equity method	12	**(57)**	59
ECL charged on balances and placement with banks on adoption		**-**	7
Impairment of financial assets		**13,584**	10,692
Impairment of investments	11	**19,557**	1,312
Impairment of investments in associates and joint venture	12	**8,046**	3,959
Impairment of property and equipment	19	**2,251**	-
Depreciation	18,19	**828**	342
Finance cost on right-of-use asset	18	**196**	-
Dividend income		**(1,496)**	(1,400)
Fair value losses on investments carried at fair value through profit or loss - net	28	**31,004**	35,069
Operating loss before changes in operating assets and liabilities		**(7,129)**	(9,274)
Changes in operating assets and liabilities:			
Investments		**(15,177)**	4,381
Investments in associates and joint venture accounted under the equity method		**56**	(53)
Wakala contract receivable		**-**	(13,340)
Receivables		**25**	27,638
Funding to project companies		**2,503**	(4,386)
Other assets		**10,052**	(3,152)
Employee accruals		**(644)**	(652)
Other liabilities		**(8,147)**	(2,410)
Net cash from operating activities		**(18,461)**	(1,248)
INVESTING ACTIVITIES			
Dividends received		**1,496**	2,304
Property and equipment - net	19	**(47)**	(6)
Net cash from investing activities		**1,449**	2,298
FINANCING ACTIVITIES			
Islamic financing payables		**(20,791)**	537
Murabaha financing to investee companies		**28,994**	1,287
Rent paid towards right-of-use asset	18	**(631)**	-
Net cash from financing activities		**7,572**	1,824
Foreign currency translation adjustments		**(96)**	-
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(9,536)**	2,874
Cash and cash equivalents at beginning of the year		**10,200**	7,326
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**664**	10,200
Comprising:			
Balances in current and call accounts	10	**664**	7,330
Short-term placements	10	**-**	2,870
		664	10,200

The attached notes 1 to 42 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

	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 2019	22	190,000	5,859	(71)	(93,302)	102,486
Net loss for the year		-	-	-	(80,261)	(80,261)
Foreign currency translation difference on investment in an associate	12	-	-	(96)	-	(96)
Balance at 30 June 2020		**190,000**	**5,859**	**(167)**	**(173,563)**	**22,129**
Balance at 1 July 2018	22	190,000	5,859	(71)	(30,330)	165,458
Transition adjustment on adoption of FAS 30 as of 1 July 2018		-	-	-	(4,791)	(4,791)
Restated balance as of 1 July 2018		190,000	5,859	(71)	(35,121)	160,667
Net loss for the year		-	-	-	(58,181)	(58,181)
Balance at 30 June 2019		190,000	5,859	(71)	(93,302)	102,486

The attached notes 1 to 42 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 2020

2020	***Balance as at 1 July 2019***	***Movements during the year***				***Balance as at 30 June 2020***
		Distribution	***Fair value movement / (impairment)***	***Net loss***	***Bank's fees as an agent***	
	USD '000	***USD '000***	***USD '000***	***USD '000***	***USD '000***	***USD '000***
GCC Pre IPO Fund	**1,887**	**-**	**(769)**	**-**	**-**	**1,118**

2019	*Balance as at 1 July 2018*	*Movements during the year*				*Balance as at 30 June 2019*
		Distribution	*Fair value movement / (impairment)*	*Net loss*	*Bank's fees as an agent*	
	USD '000	*USD '000*	*USD '000*	*USD '000*	*USD '000*	*USD '000*
GCC Pre IPO Fund	2,106	(227)	8	-	-	1,887

	2020	*2019*
	USD '000	*USD '000*
Investment in equities	**1,052**	1,821
Dividends receivable	**64**	64
Balances with banks	**2**	2
Total as at 30 June	**1,118**	1,887

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 beneficial interest of RIA. Investors nominate the specific equities they wish to participate in from a pool of GCC Pre-IPO equities, specifying the amounts in each, and receive all returns less the Bank's fee of 20% over a 10% simple return.

1 INCORPORATION AND ACTIVITIES

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

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

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary companies (together, “the Group”). Refer to note 8 for details of the Bank's subsidiaries.

These consolidated financial statements were approved by the Bank's Board of Directors on 5 November 2020.

2 FUNDAMENTAL ACCOUNTING ASSUMPTION

The Group incurred a net loss of USD 80,261 thousand (2019: net loss of USD 58,181 thousand) during the year ended 30 June 2020. At 30 June 2020, the Group's total liabilities with maturity up to 12 months exceeded its total assets with the same maturity representing a net liquidity gap of USD 65,706 thousand. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

As at 30 June 2020, the Group's accumulated losses exceeded 50% of its share capital. The Bahrain Commercial Companies Law ("BCCL") requires that where accumulated losses exceed 50% of paid-up capital, the directors should call for an extraordinary general meeting at which the shareholders are required to resolve whether to continue with the operations of the Group or to dissolve it before the expiry of its term. This meeting has not yet been held.

The Bank expects to settle an Islamic financing payable amounting to USD 70,687 thousand in exchange for ownership in various investment assets of equivalent value currently held by the Bank as of 30 June 2020. Based on management’s assessment, the impact of the final settlement agreement, once signed, will be, but not limited to, the following:

- decrease in liabilities related to Islamic financing payable by USD 70,687 thousand;
- decrease in total assets by USD 70,687 thousand; and
- Improvement in capital adequacy ratio from 2.89% to 7.10%.

This will enable the Group to continue as a going concern and to settle its obligations to third parties as and when they fall due. Additionally, the shareholders do not have any intention to liquidate the Bank, and these consolidated financial statements have been prepared on a going concern basis. In the event of a distress sale of the Group's assets, their net realisable value might not approximate their fair value as at 30 June 2020.

3 BASIS OF PREPARATION

3.1 Statement of compliance
The consolidated financial statements of the Group have been prepared in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and in conformity with 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 and the terms of the Bank’s memorandum and articles of association except as noted below:

3 BASIS OF PREPARATION (continued)

3.1 Statement of compliance (continued)

- Total shareholders' equity amounted USD 22,129 thousand, which is below the minimum of USD 100 million required for Bahraini Islamic Wholesale bank licensees as prescribed under LR-2.5.2B of Volume 2 of the CBB rule book.
- Total CAR of 2.89%, which is in breach of the minimum requirement of 12.5% as prescribed under CA-2.2.1 of Volume 2 of the CBB rule book.
- Tier 1 and CET1 CAR of 2.42%, which is in breach of the minimum requirement of 10.5% as prescribed under CA-2.2.1 of Volume 2 of the CBB rule book.
- NSFR of 34%, which is in breach of the minimum requirement of 100% as prescribed under LM-12.3.1 of Volume 2 of the CBB rule book.
- LCR of 0.66%, which is in breach of the minimum requirement of 100% as prescribed under LM-11.1.4 of Volume 2 of the CBB rule book.

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.

3.2 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.

3.3 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 of 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.

4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS ADOPTED

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 2019, except for the following new standards and interpretations adopted by the Group:

FAS 32 - Ijarah

This standard supersedes FAS 8 “Ijarah and Ijarah Muntahia Bittamleek”. FAS 32 sets out the principles for the classification, recognition, measurement, presentation and disclosure of Ijarah type transactions including their different forms entered into by an institution, in both the capacities of lessor and lessee. This standard shall be effective for periods beginning or after 1 January 2021, with early adoption permitted.

4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS ADOPTED (continued)

FAS 32 - Ijarah (continued)
Under this standard, an institution, in its capacity either as lessor or lessee shall classify each of its Ijarah into a) operating Ijarah b) Ijara Muntahia Biltamleek with expected transfer of ownership after the end of the Ijarah term – either through sale or gift; and c) Ijarah Muntahia Biltamleek with gradual transfer – with gradual transfer of ownership during the Ijarah term including Diminishing Musharaka Ijarah.

The standard includes two recognition exemptions for lessees – leases of “low-value” assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of the lease, a lessee will recognize an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset) and a net Ijarah liability, duly comprising of a) gross Ijarah liability and b) deferred Ijarah cost (shown as contra-liability). Further, the net Ijarah liability should be netted-off against the advance rental payments made prior to the commencement of the lease term.

The Group has early adopted FAS 32 using the modified restrospective method of adoption effective from 1 July 2019 and the application of this standard mainly impacts the accounting for leased land and premises from which the Group operates.

a) Right-of-use assets
The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated amortisation and impairment losses, and adjustment for any effect of Ijarah modification or reassessment. The cost of right-of-use assets represents the fair value of total consideration paid/ payable and includes initial direct costs and any dismantling or decommissioning costs. The Group amortises the right-of-use assets from the commencement date to the end of the useful economic life of the right-of use assets which coincides with the end of the Ijarah term using a systematic basis that is reflective of the pattern of utilisation of benefits from the right-of-use assets. Right-of-use assets are also subject to impairment in line with FAS 30 requirements. The carrying value of right-of-use assets is recognised as a separate line item in the statement of financial position.

b) Ijarah liability
At the commencement date of the lease (i.e., the date the underlying asset is available for use), the Group recognises an Ijarah liability measured at the fair value of total rentals payable for Ijarah term. After the commencement date, the amount of Ijarah liability is increased to reflect the return on the Ijarah liability – by way of amortisation of deferred Ijarah cost and reduced to reflect the Ijarah rentals made. In addition, the carrying amount of Ijarah liability is remeasured if there is a modification, a change in the Ijarah term or change in the in-substance fixed lease payments. The carrying value of the Ijarah liability is recognised as a separate line item in the statement of financial position.

FAS 28 - Murabaha and Other Deferred Payment Sales
The Group has adopted FAS 28 which is effective for financial statements beginning on or after 1 January 2019.

This standard prescribes the accounting and reporting principles and requirements for Murabaha and deferred payment sales transactions and different elements of such transactions. This standard supersedes the earlier FAS 2 “Murabaha and Murabaha to the Purchase Orderer” and FAS 20 “Deferred Payment Sale”. This standard has been applied on a prospective basis for transactions executed on or after the effective date. The adoption of this standard did not have an impact on the consolidated financial statements.

5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

New standards, amendments and interpretations issued but not yet effective for adoption
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.

5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (continued)

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

FAS 33 Investment in sukuk, shares and similar instruments
This standard aims at setting out principles for the classification, recognition, measurement, presentation, and disclosure of investment in Sukuk, shares and other similar instruments of investments made by Islamic financial institutions. The standard defines the key types of instruments of Shari'ah compliant investments and the primary accounting treatments commensurate to the characteristics and business model of institutions under which the investments are made, managed and held.

This standard supersedes FAS 25 "Investment in Sukuk" and shall be effective for accounting periods beginning or after 1 January 2020 with early adoption permitted. The Group expects that the adoption of this standard will have no impact on the consolidated financial statements in the year of initial application.

FAS 34 Financial Reporting for Sukuk -holders
This standard prescribes the accounting principles and reporting requirements for underlying assets of a sukuk instrument. It requires the originator to prepare or cause to prepare financing reports as needed under this standard. This standard shall be effective for accounting periods beginning on or after 1 January 2020, with early adoption permitted.

The Group expects that the adoption of this standard will have no impact on the consolidated financial statements in the year of initial application.

FAS 35 Risk Reserves
This standard defines the accounting and financial reporting principles for risk reserves to be in line with global best practices for accounting and risk management. This standard complements FAS 30 "Impairment, Credit Losses and Onerous Commitments". Both standards FAS 35 & FAS 30 together supersede the earlier FAS 11 "Provisions and Reserves". This standard shall be effective beginning or after 1 January 2021, with early adoption is permitted, only if the financial institution decided to early adopt FAS 30.

The Group expects that the adoption of this standard will have no impact on the consolidated financial statements in the year of initial application.

FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar)
This standard intends to define the accounting principles and reporting requirements for investment agency (Al-Wakala Bi Al-Istithmar) transactions and instruments, in the hands of both the principal and the agent. This standard shall be effective beginning on or after 1 January 2020, with early adoption permitted.

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

6 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.

6 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

The most significant judgements and estimates are discussed below:

Going concern

As of 30 June 2020, the Group's bank balances amounted to USD 505 thousand and there was a short-term maturity mismatch (current liabilities in excess of current assets) of USD 65,706 thousand principally due to the inclusion of a USD 70,687 thousand Wakala financing payable to a creditor that became past due during the year and remained unsettled at year end. However, management has undertaken various initiatives to improve its liquidity and strengthen its financial position.

The Group is in advanced stages of restructuring and settling its USD 70,687 thousand of Wakala financing with its creditor and expects the settlement agreement to be signed in the second quarter of the Bank's financial year. Management expects to settle this obligation in exchange for ownership in various investment assets of equivalent value currently held by the Bank as of 30 June 2020. A letter of intent has been signed on 21 June 2020 agreeing to the settlement terms in principle with the creditor.

The Bank plans to exit most of its legacy investment assets, some of which are in advanced stages of negotiation and execution with potential buyers. Management expects these exits to generate sufficient liquidity in the short term to cover ongoing operating costs and provide funding to support its restructuring plan and meet its near-term obligations.

Additionally, management is in advanced stages of discussions with the regulator on the Bank's restructuring plan in order to address existing regulatory concerns and better position itself for recovery and stability. As part of its restructuring efforts, management is in the process of formulating a strategic business plan which will provide a clear path for the business' long term growth and sustainability.

Management is satisfied that the Group has the resources to continue in business for the foreseeable future and, therefore, the consolidated financial statements continue to be prepared on a going concern basis. In the event of a distress sale of the Group's assets, their net realisable value might not approximate their fair value as at 30 June 2020.

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 40 and 41.

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 losses. 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.

6 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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 is estimated to assess impairment. In making a judgement of impairment, the Group evaluates among other factors, evidence of deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

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

7 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 currencies 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.

7 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.

7 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.

7 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.

(e) Impairment assessment

(i) 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 the 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 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.

(ii) Financial contracts
Financial contracts consist of balances and placements with banks, Murabaha financing to investee companies, Wakala contract receivable, receivables, funding to project companies, certain other assets and contingencies and commitments. Balances relating to these contracts are stated net of allowance for credit losses.

(iii) Impairment of financial assets
The Group applies three-stage approach to measure ECL on financial assets carried at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment assessment (cotinued)

(iii) Impairment of financial assets (continued)

Stage 1: Twelve months ECL
Twelve months ECL (Stage 1) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Group and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a significant increase in credit risk (SICR) since initial recognition but that are not credit impaired, a lifetime ECL is recognised. Lifetime ECL is the loss that results from all possible default events over the expected life of the financial contract. The parameters in the loss ratios matrix are generally derived from internally developed models and other historical data and range from 0.25% for balances with banks of good standing to 15% for funding to investees which are assessed to fall under stage 2.

Stage 3: Lifetime ECL – credit impaired
Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

For Stage 3 financial contracts, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract. As this uses the same criteria as under FAS 11, the Group methodology for specific allowance for credit losses remains largely unchanged.

In cases where there is no collateral or guarantees which the Group can use to recover its exposure, the past due rules as per Group's policy or local requirements, whichever is more strict, are applied for allowance for credit losses calculation.

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- probability that the borrower will enter bankruptcy or other financial reorganization; or
- the restructuring of a facility by the Group on terms that the Group would not consider otherwise.

Measurement of ECL
The Group has developed an ECL Policy and measurement approach that appropriately reflects its credit exposures keeping in mind the nature of its exposures which are primarily to its own investees.

Given that the Group is not in the business of extending loans and financing, the Group's ECL provisioning approach is based on a detailed evaluation of all its individual exposures together with a provisioning matrix reflecting the expected credit losses for non-impaired exposures using the practical expedient under FAS30.

The parameters in the loss ratios matrix are generally derived from internally developed models and other historical data and range from 0.25% for balances with banks of good standing to 15% for fundings to investees which are assessed to fall under stage 2.

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment assessment (cotinued)

(iii) Impairment of financial assets (continued)

Definition of default

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as liquidating collateral; or the borrower is past due more than the expected due date of settlement to the Group. In assessing whether a borrower is in default, the Group considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on other obligations of the same or closely connected counterparty to the Group.

Probability of default ("PD")

Types of PDs used for ECL computation

- 12-month PDs – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs.
- Lifetime PDs – This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for 'stage 2'.

Incorporation of forward - looking information

Incorporating forward-looking information increases the level of judgment as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category and subject to specific impairment provision). As per the policy, the methodologies and assumptions involved, including any forecasts of future economic conditions, and the resultant ECL provision matrix are required to be reviewed periodically.

Loss Given Default ("LGD")

LGD is used to determine the amount of loss that will arise if the borrower was to default. This is calculated by looking at the collateral and other resources available to the Group that can be used to recover the asset in case of default.

Exposure At Default ("EAD")

EAD represents estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, and expected drawdowns on committed facilities.

On-balance sheet EADs

EADs for on-balance sheet items are the amount that is outstanding at the time of default. Outstanding of an on-balance sheet exposure shall be directly taken subject to inclusion of its repayment structure.

Off-balance sheet EADs

Off-balance sheet exposures do not have fixed payout date; thus, the EAD for off-balance sheet is calculated after applying the Credit Conversion Factor (CCF) to the nominal amount of the off-balance sheet exposure. In absence of internal data, the Group uses Basel CCF's for Capital Adequacy Ratio (CAR) purposes as per the CBB regulations. These rates are 20% for exposures with maturity equal to or less than 1 year and 50% for exposures with maturity of more than 1 year.

Collective ECL computation and staging

To assess the staging of exposures and to measure a loss allowance on a collective basis, the Group groups its exposures into segments on the basis of shared credit risk characteristics, such as geography, type of customer, industry, rating, date of initial recognition, maturity and collateral value.

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment assessment (cotinued)

(iii) Impairment of financial assets (continued)

Significant increase in credit risk
When determining whether the risk of default on a financial contracts has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost and effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment including forward-looking information.

The assessment is carried out for specific instrument rather than a counterparty, as each instrument may have a different credit risk at initial recognition.

(f) Other financial assets carried at amortised cost
All other financial assets are classified as loans and receivables and are carried at amortised cost less provision for credit losses. 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.

(g) 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/loss of associates is shown on the face of the consolidated statement of income. This is the profit/loss attributable to equity holders of the associates and, therefore, is profit/loss 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.

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) 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.

(i) Cash and cash equivalents

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

(j) Property and equipment

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

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

(k) Impairment of non-financial assets

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

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

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

(o) Share capital and statutory reserve

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.

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

(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.

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Revenue recognition (continued)

(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.

(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.

(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 33.

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

8 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 achieved control of the entity in June 2018.
Food Vest Holding W.L.L. (through Venture Foods S.P.C.) *	2016	50.77%	Kingdom of Bahrain	To own a wholesale and/or retail of food and beverages in the Kingdom of Bahrain. The Group achieved control in October 2018.

* The Group's investment in GMCB Co. W.L.L. and Food Vest Holding W.L.L. are not consolidated on a line by line basis as control is deemed to be temporary in nature and the Group's intention is to dispose of the entities within twelve months from acquisition and management is actively seeking a buyer in accordance with FAS 23. At 30 June 2020, management is still seeking a buyer and the Group have extended this period for another twelve months and consider these to be investments held for sale. The carrying value of these unconsolidated subsidiaries are currently classified under Investments carried at fair value through profit or loss amounting to USD 10,411 thousand as at 30 June 2020.

9 CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

At 30 June 2020	***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	**-**	**-**	**505**	**505**
Investments	**36,912**	**39,466**	**-**	**76,378**
Murabaha financing to investee companies	**-**	**-**	**472**	**472**
Wakala contract receivable			**6,670**	**6,670**
Receivables	**-**	**-**	**2,020**	**2,020**
Funding to project companies	**-**	**-**	**3,181**	**3,181**
Other assets	**-**	**-**	**8,831**	**8,831**
TOTAL FINANCIAL ASSETS	**36,912**	**39,466**	**21,679**	**98,057**
LIABILITIES				
Islamic financing payables	**-**	**-**	**88,901**	**88,901**
Ijarah liability	**-**	**-**	**3,894**	**3,894**
Other liabilities	**-**	**-**	**3,182**	**3,182**
TOTAL FINANCIAL LIABILITIES	**-**	**-**	**95,977**	**95,977**
OFF BALANCE SHEET ITEMS				
Equity of investment account holders	**-**	**1,052**	**66**	**1,118**

At 30 June 2019	*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	-	-	10,175	10,175
Investments	75,163	35,819	-	110,982
Murabaha financing to investee companies	-	-	30,406	30,406
Wakala contract receivable			10,672	10,672
Receivables	-	-	1,976	1,976
Funding to project companies	-	-	5,693	5,693
Other assets	-	-	26,540	26,540
TOTAL FINANCIAL ASSETS	75,163	35,819	85,462	196,444
LIABILITIES				
Islamic financing payables	-	-	109,692	109,692
Other liabilities	-	-	9,563	9,563
TOTAL FINANCIAL LIABILITIES	-	-	119,255	119,255
OFF BALANCE SHEET ITEMS				
Equity of investment account holders	-	1,821	66	1,887

10 BALANCES AND PLACEMENTS WITH BANKS

	30 June 2020 USD '000	*30 June 2019 USD '000*
Balances in current and call accounts	**664**	7,330
Short-term placements with financial institutions	**-**	2,871
Less: Deferred profits	**-**	(1)
	664	10,200
Less: ECL provision	**(159)**	(25)
	505	10,175

Short-term placements comprises of wakala placements with a locally incorporated Islamic bank at an expected profit rate of 0.60% (2019: 2.1% to 0.72%) maturing within 90 days of initial placement. As at 30 June 2019 the Group's balances and placements with banks included USD 5,130 thousand of investors' funds received in transit. During the year, the Group have transferred these funds to the respective project company bank account.

11 INVESTMENTS

	30 June 2020 USD '000	*30 June 2019 USD '000*
Investments at fair value through profit or loss		
Quoted equities held for trading	**1,178**	4,090
Unquoted:		
Equities	**34,613**	67,788
Fund	**1,121**	3,285
	36,912	75,163

	30 June 2020 USD '000	*30 June 2019 USD '000*
Available-for-sale investments ("AFS")		
Unquoted equities	**26,069**	34,015
Short term liquidity certificates	**13,397**	1,804
	39,466	35,819
Total investments - net	**76,378**	110,982

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

	30 June 2020 USD '000	*30 June 2019 USD '000*
Gross investments		
Unquoted equities - AFS	**52,978**	55,404
Short term liquidity certificates - AFS	**28,060**	2,430
	81,038	57,834
Less: impairment provision	**(41,572)**	(22,015)
Total investments - net	**39,466**	35,819

11 INVESTMENTS (continued)

The table below illustrates the movement in impairment provision during the year:

	30 June 2020 USD '000	*30 June 2019 USD '000*
Provision at the beginning of the year	**(22,015)**	(20,703)
Impairment charged	**(19,557)**	(1,312)
Provision at the end of the year	**(41,572)**	(22,015)

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

	30 June 2020 USD '000	*30 June 2019 USD '000*
Real estate projects	**28,924**	22,677
Private equity	**10,322**	12,772
Financial services	**220**	370
	39,466	35,819

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

12 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 2020***	*30 June 2019*
Mozon Holding SA	Investment development	Kingdom of Morocco	**20.00**	20.00
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 2020***	*30 June 2019*
Global Real Estate Co. W.L.L.	Real estate development	Kingdom of Bahrain	**50**	50

The carrying value comprises:	***30 June 2020 USD '000***	*30 June 2019 USD '000*
Associates	**934**	1,396
Joint venture	**13,722**	21,305
	14,656	22,701

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

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

	30 June 2020 USD '000	*30 June 2019 USD '000*
At 1 July	**22,701**	26,666
Acquisitions / additional investments during the year	**40**	53
Foreign currency differences	**(96)**	-
Impairment provisions charged	**(8,046)**	(3,959)
Share of profit / (losses) of associates and joint venture, net	**57**	(59)
At 30 June	**14,656**	22,701

	30 June 2020 USD '000	*30 June 2019 USD '000*
Gross investment		
Associates	**4,112**	4,112
Joint venture	**27,216**	27,176
	31,328	31,288
Less:		
- Impairment provision	**(12,579)**	(4,533)
- Foreign currency differences	**(167)**	(71)
- Share of losses of associates and joint venture, net	**(3,926)**	(3,983)
Net investment	**14,656**	22,701

The table below illustrates the movement in impairment provision during the year:

	30 June 2020 USD '000	*30 June 2019 USD '000*
Provision at the beginning of the year	**(4,533)**	(574)
Impairment charged	**(8,046)**	(3,959)
Provision at the end of the year	**(12,579)**	(4,533)

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

	30 June 2020 USD '000	*30 June 2019 USD '000*
Total assets	**73,562**	73,593
Total liabilities	**832**	844
Total revenues for the year	**80**	110

The share of profits / (losses) of associates and joint venture and their total assets, liabilities and revenues are based on unaudited management accounts at 30 June 2020 and 2019.

13 MURABAHA FINANCING TO INVESTEE COMPANIES

	30 June 2020 USD '000	*30 June 2019 USD '000*
Financing to investee companies in the following sectors:		
Shipping	**654**	34,920
United Kingdom real estate	**1,042**	1,420
	1,696	36,340
Less: ECL provision	**(1,224)**	(5,934)
At 30 June	**472**	30,406

The table below illustrates the movement in impairment provision during the year:

	30 June 2020 USD '000	*30 June 2019 USD '000*
Provision at the beginning of the year	**(5,934)**	(3,000)
Write off	**5,650**	1,490
Impairment charged	**(940)**	(4,424)
Provision at the end of the year	**(1,224)**	(5,934)

These represent financing support extended by the Group to facilitate the debt restructuring and repayments of investees with external lenders in the form of commodity murabaha contracts. The Group did not recognise any profit during the year on these financing contracts.

14 WAKALA CONTRACT RECEIVABLE

Wakala contract receivable represents USD 13,341 thousand of short-term trade finance deals placed with Trade Finance Corporation ("TFC") through a locally incorporated bank ("Wakil") at an expected profit rate of 6.5% per annum with maturities ranging between 90 to 150 days. The Group has recognised an ECL of 50% under stage 3 amounting to USD 6,671 thousand (2019: USD 2,669 thousand).

The Group suspended accruing profit on its wakala contract receivable as the Wakil has failed to redeem the Group's wakala upon their request. The Group has a corresponding short-term borrowing from the Wakil under an unrestricted wakala agreement amounting USD 13,241 thousand.

15 RECEIVABLES

	30 June 2020 USD '000	*30 June 2019 USD '000*
Receivable from investment banking services	**9,879**	9,903
Receivable on sale of investment	**591**	591
	10,470	10,494
Less: ECL provision	**(8,450)**	(8,518)
	2,020	1,976

Refer to note 30 for movement in impairment provision.

16 FUNDING TO PROJECT COMPANIES

	30 June 2020 USD '000	*30 June 2019 USD '000*
Gross funding	**5,278**	7,781
Less: ECL provision	**(2,097)**	(2,088)
	3,181	5,693

The table below illustrates the movement in impairment provision during the year:

	30 June 2020 USD '000	*30 June 2019 USD '000*
Provision at the beginning of the year	**(2,088)**	(717)
Impairment charged	**(9)**	(1,371)
Provision at the end of the year	**(2,097)**	(2,088)

These relate to funding provided to various projects and investments promoted by the Group. The financing facilities are 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 provisions have been recorded where necessary to reflect delays and doubts over recoverability based on the Group's regular impairment assessments.

17 OTHER ASSETS

	30 June 2020 USD '000	*30 June 2019 USD '000*
Advances to acquire investments	**10,532**	24,492
Project costs recoverable	**2,385**	2,217
Dividend receivable	**124**	-
Other receivables	**6,446**	2,830
	19,487	29,539
Less: ECL provision	**(10,578)**	(2,861)
	8,909	26,678

	30 June 2020 USD '000	*30 June 2019 USD '000*
Provision at the beginning of the year	**(2,861)**	(2,992)
Impairment (charged) / reversed	**(7,717)**	131
Provision at the end of the year	**(10,578)**	(2,861)

18 RIGHT-OF-USE ASSET / IJARAH LIABILITY

The Group's subsidiaries have lease contracts for office rental spaces and land. The table below illustrates the right-of-use assets and related liabilities recognised by the Group:

	Right-of-use asset USD	*Ijarah liability USD*
As at 1 July 2019	**4,329**	**4,329**
Depreciation	**(498)**	**-**
Finance cost	**-**	**196**
Rent paid	**-**	**(631)**
As at 30 June 2020	**3,831**	**3,894**

	2020 USD	*2019 USD*
Right-of-use asset		
Current	**-**	392
Non-current	**3,831**	3,502
As at 30 June	**3,831**	3,894

	2020 USD	*2019 USD*
Ijarah liability		
Gross ijarah liability	**5,965**	-
Deferred cost on ijarah liability	**(2,071)**	-
	3,894	-

19 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 2020	10,098	1,814	4,817	496	17,225
Additions during the year	-	47	-	-	47
At 30 June 2020	**10,098**	**1,861**	**4,817**	**496**	**17,272**
Depreciation					
At 1 July 2020	2,645	1,814	4,796	490	9,745
Charge for the year	289	13	21	6	329
At 30 June 2020	**2,934**	**1,827**	**4,817**	**496**	**10,074**
Impairment					
Charge for the year	**2,251**	**-**	**-**	**-**	**2,251**
Net book value at 30 June 2020	**4,913**	**34**	**-**	**-**	**4,947**
Net book value at 30 June 2019	7,453	-	21	6	7,480

20 ISLAMIC FINANCING PAYABLES

		30 June 2020 USD '000	*30 June 2019 USD '000*
Short-term Islamic financing payables:			
Wakala payable to non-bank	20.1	**75,660**	70,687
Wakala payable to financial institution	20.2	**13,241**	39,005
		88,901	109,692

20.1 This represents a medium term Wakala financing at an annual profit rate of 6% with bullet repayment in January 2020. This facility is currently payable on demand. However, management is in advanced stages of restructuring and settling its USD 75,660 thousand (including profit expense accrued) of Wakala financing principal amount with its creditor and expects the settlement agreement to be signed in Q2 2020. The Bank expects to settle this obligation in exchange for ownership in various investment assets of equivalent value currently held by the Bank on its balance sheet as of 30 June 2020. A letter of intent has been signed on 21 June 2020 agreeing to the settlement terms in principle between the creditor and the Bank.

20.2 This consists of short-term Wakala Islamic financing from local banks with maturities of not more than one month. These Islamic financing payables carry annual profit rates ranging between 2.75% and 0.0% (30 June 2019: 4.25% and 2.75%). The Group is undergoing a legal case to net off the payable amount against the Wakala contract receivable. Due to the ongoing litigation process, this Wakala balance does not accrue any profit.

21 OTHER LIABILITIES

	30 June 2020 USD '000	*30 June 2019 USD '000*
Accounts payable	**3,182**	9,563
Provisions and accruals	**602**	1,567
Deferred income	**1,303**	1,274
Other	**762**	741
	5,849	13,145

22 SHARE CAPITAL

	30 June 2020 USD '000	*30 June 2019 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 (2019: 190,000,000 shares of USD 1 each)	**190,000**	190,000

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 2020 until the Group's accumulated losses are 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.

23 INCOME FROM INVESTMENT BANKING SERVICES - NET

	30 June 2020 USD '000	*30 June 2019 USD '000*
Investment banking and structuring income	**1,046**	1,947
Investment management and arrangement fees	**566**	206
	1,612	2,153

24 GAIN ON SALE OF INVESTMENT

	30 June 2020 USD '000	*30 June 2019 USD '000*
Gain on sale of available-for-sale investments - net	**769**	1,133
Gain on sale of investment designated at fair value through profit or loss	**12**	-
	781	1,133

25 FINANCE INCOME

	30 June 2020 USD '000	*30 June 2019 USD '000*
Income from placements with financial institutions	**608**	284
Income from funding to project companies	**-**	3,788
	608	4,072

26 FINANCE EXPENSE

Islamic financing payables	**4,392**	5,369
Ijarah liability	**196**	-
	4,588	5,369

27 RENTAL AND OTHER INCOME

	30 June 2020 USD '000	*30 June 2019 USD '000*
Rental and property management income	**919**	357
Recoveries of impaired receivables	**1,815**	-
Other income	**892**	1,429
	3,626	1,786

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

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

	30 June 2020 USD '000	*30 June 2019 USD '000*
Trading securities - quoted	**27**	546
Investments designated at fair value through profit or loss - net	**(31,031)**	(35,615)
	(31,004)	(35,069)

29 STAFF COSTS

	30 June 2020 USD '000	*30 June 2019 USD '000*
Salaries and benefits	**3,291**	5,938
Social insurance expenses	**270**	370
Employee severance cost	**-**	749
Other staff expenses	**17**	4
	3,578	7,061

30 IMPAIRMENT OF FINANCIAL ASSETS

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of credit loss allowances.

	30 June 2020			
	Stage 1 USD '000	***Stage 2 USD '000***	***Stage 3 USD '000***	***Total USD '000***
Exposures subject to ECL				
Balances and placement with banks	506	-	158	664
Murabaha financing to investee companies	-	1,042	654	1,696
Wakala contract receivable	-	-	13,341	13,341
Receivables	591	140	9,739	10,470
Funding to project companies	218	3,961	1,099	5,278
Other assets*	4,414	5,956	9,117	19,487
	5,729	**11,099**	**34,108**	**50,936**
Guarantees and commitments	19,700	26,136	-	45,836
	25,429	**37,235**	**34,108**	**96,772**

	1 July 2019			
	Stage 1 USD '000	*Stage 2 USD '000*	*Stage 3 USD '000*	*Total USD '000*
Exposures subject to ECL				
Balances and placement with banks	10,200	-	-	10,200
Murabaha financing to investee companies	-	1,420	36,410	37,830
Wakala contract receivable	-	-	13,341	13,341
Receivables	591	163	9,740	10,494
Funding to project companies	-	7,711	70	7,781
Other assets*	-	3,334	2,711	6,045
	10,791	12,628	62,272	85,691
Guarantees and commitments	39,440	-	-	39,440
	50,231	12,628	62,272	125,131

*Other assets subject to ECL excludes advances to invest (refer note 17).

30 IMPAIRMENT OF FINANCIAL ASSETS (continued)

An analysis of the changes in ECL allowances, is as follows:

	Stage 1: 12-month ECL USD '000	*Stage 2: Lifetime ECL not credit-impaired USD '000*	*Stage 3: Lifetime ECL credit-impaired USD '000*	*Total USD '000*
Balance at 1 July on adoption of FAS 30				
Balances and placement with banks	(25)	-	-	(25)
Murabaha financing to investee companies	-	(284)	(5,650)	(5,934)
Wakala contract receivable	-	-	(2,669)	(2,669)
Receivables	(58)	(72)	(8,388)	(8,518)
Funding to project companies	-	(2,018)	(70)	(2,088)
Other assets	-	(168)	(2,693)	(2,861)
Guarantees and commitments	(99)	-	-	(99)
	(182)	**(2,542)**	**(19,470)**	**(22,194)**
Charge during the period				
Balances and placement with banks	24	-	(158)	(134)
Murabaha financing to investee companies	-	(286)	(654)	(940)
Wakala contract receivable	-	-	(4,002)	(4,002)
Receivables	-	68	1	69
Funding to project companies	-	852	(861)	(9)
Other assets	(203)	(1,142)	(6,372)	(7,717)
Guarantees and commitments	89	(940)	-	(851)
	(90)	**(1,448)**	**(12,046)**	**(13,584)**
Amount written off				
Murabaha financing to investee companies	**-**	**-**	**5,650**	**5,650**
Balance at 30 June 2020				
Balances and placement with banks	(1)	-	(158)	(159)
Murabaha financing to investee companies	-	(570)	(654)	(1,224)
Wakala contract receivable	-	-	(6,671)	(6,671)
Receivables	(59)	(4)	(8,387)	(8,450)
Funding to project companies	-	(1,166)	(931)	(2,097)
Other assets	(203)	(1,310)	(9,065)	(10,578)
Guarantees and commitments	(10)	(940)	-	(950)
As at 30 June 2020	(273)	(3,990)	(25,866)	(30,129)

During the year ended 30 June 2020, an exposure amounting USD 654 thousand relating to 'Murabaha financing to investee companies' and USD 362 thousand relating to 'Other assets' have been transferred from stage 2 to stage 3. Additionally, an exposure amounting USD 158 thousand relating to 'Balances and placement with banks' has been transferred from stage 1 to stage 3 and USD 14 thousand relating to 'Other assets' has been transferred from stage 1 to stage 2.

31 OTHER EXPENSES

	30 June 2020 USD '000	*30 June 2019 USD '000*
Office expenses	**1,585**	1,594
Publicity, conferences and promotion	**69**	122
Board of directors and Shari'a supervisory board fees and expenses	**492**	495
Exchange loss	**27**	186
Regulatory penalties	**170**	-
Project management costs	**1,883**	1,232
Other	**56**	16
	4,282	3,645

32 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.

The Group earns income from investment banking services and management fees 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.

32 RELATED PARTY TRANSACTIONS (continued)

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

30 June 2020	***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				
Investments	10,411	-	1,121	**11,532**
Investments in associates and joint venture accounted under the equity method	14,656	-	-	**14,656**
Other assets	-	-	490	**490**
Liabilities				
Employee accruals	-	547	-	**547**
Other liabilities	-	-	159	**159**
Income				
Share of profit of associates and joint venture accounted for using the equity method	57	-	-	**57**
Expenses (excluding compensation for key management personnel)				
Impairment on investment in associates and joint venture	(8,046)	-	-	**(8,046)**
Commitments and contingencies	27,274	-	-	**27,274**

32 RELATED PARTY TRANSACTIONS (continued)

30 June 2019	*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	-	-	167	167
Placements with financial institutions	-	-		-
Investments	20,880	-	6,251	27,131
Investments in associates and joint venture accounted under the equity method	22,701	-	-	22,701
Murabaha financing to investee companies	29,424	-	-	29,424
Other assets	5,415	-	860	6,275
Liabilities				
Employee accruals	-	580	-	580
Other liabilities	-	-	498	498
Income				
Share of loss of associates and joint venture accounted for using the equity method	(59)	-	-	(59)
Other income	-	-	773	773
Expenses (excluding compensation for key management personnel)				
Impairment allowances against receivables	300	-	-	300
Commitments and contingencies	26,314	-	-	26,314

32 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 2020		*30 June 2019*	
	Number of Shares	***Number of Directors***	*Number of Shares*	*Number of Directors*
Less than 1%	**6,166,532**	**5**	6,166,532	5
1% up to less than 5%	**6,803,131**	**2**	6,803,131	2
5% and less than 10%	**25,179,616**	**2**	25,179,616	2
	38,149,279	**9***	38,149,279	9*

* One director representing a corporate shareholder also holds a personal ownership of 1.19%, hence total directors for the year ended 2020 are 8 directors.

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

Compensation of directors and key management personnel are as follows:

	30 June 2020 USD '000	*30 June 2019 USD '000*
Board of directors' attendance fees	**313**	306
Salaries and other short-term benefits	**1,366**	3,787
	1,679	4,093

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.

Board of Directors' remuneration

No board remuneration was proposed for the years 2020 and 2019.

33 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 during the year ended 30 June 2020 and the prior period. Accordingly, a 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 2020 is US cents nil for every share held (2019: 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.

34 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 (2018: nil).

35 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.

36 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 40 (c).

30 June 2020	*Up to 3 months USD '000*	*3 to 6 months USD '000*	*6 months to 1 year USD '000*	*Total up to 1 year USD '000*	*1 to 3 years USD '000*	*Over 3 years USD '000*	*No fixed maturity USD '000*	*Total USD '000*
Assets								
Balances and placements with banks	505	-	-	505	-	-	-	**505**
Investments	1,178	-	21,235	22,413	10,447	-	43,518	**76,378**
Investments in associates and joint venture accounted under the equity method	-	-	-	-	-	-	14,656	**14,656**
Murabaha financing to investee companies	-	472	-	472	-	-	-	**472**
Wakala contract receivable	-	-	-	-	6,670	-	-	**6,670**
Receivables	-	591	81	672	1,348	-	-	**2,020**
Funding to project companies	218	168	-	386	2,795	-	-	**3,181**
Other assets	175	277	-	452	8,457	-	-	**8,909**
Right-of-use asset	-	-	-	-	3,831	-	-	**3,831**
Property and equipment	-	-	-	-	-	-	4,947	**4,947**
Total assets	**2,076**	**1,508**	**21,316**	**24,900**	**33,548**	**-**	**63,121**	**121,569**
Liabilities								
Islamic financing payables	88,901	-	-	88,901	-	-	-	**88,901**
Employee accruals	-	-	-	-	761	35	-	**796**
Ijarah liability	-	-	-	-	3,894	-	-	**3,894**
Other liabilities	950	755	-	1,705	2,472	1,672	-	**5,849**
Total liabilities	**89,851**	**755**	**-**	**90,606**	**7,127**	**1,707**	**-**	**99,440**
Net liquidity gap	**(87,775)**	**753**	**21,316**	**(65,706)**	**26,421**	**(1,707)**	**63,121**	**22,129**
Cumulative liquidity gap	**(87,775)**	**(87,022)**	**(65,706)**	**(65,706)**	**(39,285)**	**(40,992)**	**22,129**	**22,129**
Commitments and contingencies	**-**	**139**	**255**	**394**	**35,442**	**-**	**10,000**	**45,836**

36 MATURITY PROFILE (continued)

30 June 2019	*Up to 3 months USD '000*	*3 to 6 months USD '000*	*6 months to 1 year USD '000*	*Total up to 1 year USD '000*	*1 to 3 years USD '000*	*Over 3 years USD '000*	*No fixed maturity USD '000*	*Total USD '000*
Assets								
Balances and placements with banks	10,175	-	-	10,175	-	-	-	10,175
Investments	994	1,084	720	2,798	11,962	-	96,222	110,982
Investments in associates and joint venture accounted under the equity method	-	-	-	-	-	-	22,701	22,701
Murabaha financing to investee companies	-	30,406	-	30,406	-	-	-	30,406
Wakala contract receivable	10,672	-	-	10,672	-	-	-	10,672
Receivables	-	708	-	708	1,268	-	-	1,976
Funding to project companies	-	1,327	2,183	3,510	2,183	-	-	5,693
Other assets	12,936	2,359	398	15,693	92	295	10,598	26,678
Property and equipment	-	-	-	-	-	-	7,480	7,480
Total assets	34,777	35,884	3,301	73,962	15,505	295	137,001	226,763
Liabilities								
Islamic financing payables	39,005	-	70,687	109,692	-	-	-	109,692
Employee accruals	-	-	-	-	168	-	1,272	1,440
Other liabilities	7,995	2,591	853	11,439	488	1,184	34	13,145
Total liabilities	47,000	2,591	71,540	121,131	656	1,184	1,306	124,277
Net liquidity gap	(12,223)	33,293	(68,239)	(47,169)	14,849	(889)	135,695	102,486
Cumulative liquidity gap	(12,223)	21,070	(47,169)	(47,169)	(32,320)	(33,209)	102,486	102,486
Commitments and contingencies	-	160	275	435	29,005	-	10,000	39,440

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

a) Industry sector

30 June 2020	*Trading and Manufacturing USD '000*	*Banks and financial institutions USD '000*	*Real estate USD '000*	*Health care USD '000*	*Technology USD '000*	*Other USD '000*	*Total USD '000*
Assets							
Balances and placements with banks	-	505	-	-	-	-	**505**
Investments	39	2,460	40,228	2,572	576	30,503	**76,378**
Investment in associates and joint venture accounted under the equity method	-	-	13,722	-	-	934	**14,656**
Murabaha financing to investee companies	-	-	472	-	-	-	**472**
Wakala contract receivable	-	6,670	-	-	-	-	**6,670**
Receivables	-	-	136	-	-	1,884	**2,020**
Funding to project companies	-	98	2,915	-	-	168	**3,181**
Other assets	-	4,127	217	-	4	4,561	**8,909**
Right-of-use asset	-	-	-	-	-	3,831	**3,831**
Property and equipment	-	-	4,571	-	-	376	**4,947**
Total assets	**39**	**13,860**	**62,261**	**2,572**	**580**	**42,257**	**121,569**
Liabilities							
Islamic financing payable	-	13,241	-	-	-	75,660	**88,901**
Employee accruals	-	-	-	-	-	796	**796**
Ijarah liability	-	-	-	-	-	3,894	**3,894**
Other liabilities	-	-	-	-	-	5,849	**5,849**
Total liabilities	**-**	**13,241**	**-**	**-**	**-**	**86,199**	**99,440**
Commitments and contingencies	**26,136**	**10,000**	**1,138**	**975**	**-**	**7,587**	**45,836**
Equity of investment account holders	**-**	**931**	**-**	**-**	**-**	**187**	**1,118**

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

a) Industry sector (continued)

30 June 2019	*Trading and Manufacturing USD '000*	*Banks and financial institutions USD '000*	*Real estate USD '000*	*Health care USD '000*	*Technology USD '000*	*Shipping USD '000*	*Other USD '000*	*Total USD '000*
Assets								
Balances and placements with banks	-	10,175	-	-	-	-	-	10,175
Investments	7,891	8,814	38,809	2,572	1,688	-	51,208	110,982
Investment in associates and joint venture accounted under the equity method	-	-	21,304	-	-	-	1,397	22,701
Murabaha financing to investee companies	-	-	982	-	-	29,424	-	30,406
Wakala contract receivable	-	10,672	-	-	-	-	-	10,672
Receivables	-	-	159	-	-	-	1,817	1,976
Funding to project companies	-	659	4,211	-	-	-	823	5,693
Other assets	5,414	29	793	-	3	-	20,439	26,678
Property and equipment	-	-	7,099	-	-	-	381	7,480
Total assets	13,305	30,349	73,357	2,572	1,691	29,424	76,065	226,763
Liabilities								
Islamic financing payable	-	38,215	-	-	-	-	71,477	109,692
Employee accruals	-	-	-	-	-	-	1,440	1,440
Other liabilities	-	-	-	-	-	-	13,145	13,145
Total liabilities	-	38,215	-	-	-	-	86,062	124,277
Commitments and contingencies	25,138	10,000	318	975	-	-	3,009	39,440
Equity of investment account holders	-	1,563	-	-	-	-	324	1,887

37 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 2020	***GCC countries USD '000***	***Other MENA countries USD '000***	***Europe USD '000***	***Cayman / Americas USD '000***	***Total USD '000***
Assets					
Balances and placements with banks	505	-	-	-	**505**
Investments	50,699	17,709	7,970	-	**76,378**
Investment in associates and joint venture accounted under the equity method	13,930	726	-	-	**14,656**
Murabaha financing to investee companies	-	-	472	-	**472**
Wakala contract receivable	6,670	-	-	-	**6,670**
Receivables	532	1,352	-	136	**2,020**
Funding to project companies	3,181	-	-	-	**3,181**
Other assets	4,748	4,107	4	50	**8,909**
Right-of-use asset	3,831	-	-	-	**3,831**
Property and equipment	4,947	-	-	-	**4,947**
Total assets	**89,043**	**23,894**	**8,446**	**186**	**121,569**
Liabilities					
Islamic financing payable	88,901	-	-	-	**88,901**
Employee accruals	796	-	-	-	**796**
Ijarah liability	3,894	-	-	-	**3,894**
Other liabilities	5,849	-	-	-	**5,849**
Total liabilities	**99,440**	-	-	-	**99,440**
Commitments and contingencies	14,263	30,714	859	-	**45,836**
Equity of investment account holders	1,118	-	-	-	**1,118**

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

(b) Geographic region (continued)

30 June 2019	*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	10,175	-	-	-	-	10,175
Investments	64,466	36,119	7,970	2,427	-	110,982
Investment in associates and joint venture accounted under the equity method	21,550	1,151	-	-	-	22,701
Murabaha financing to investee companies	-	-	982	-	29,424	30,406
Wakala contract receivable	10,672	-	-	-	-	10,672
Receivables	533	1,285	-	158	-	1,976
Funding to project companies	5,693	-	-	-	-	5,693
Other assets	2,636	23,676	343	23	-	26,678
Property and equipment	7,480	-	-	-	-	7,480
Total assets	123,205	62,231	9,295	2,608	29,424	226,763
Liabilities						
Islamic financing payable	109,692	-	-	-	-	109,692
Employee accruals	1,440	-	-	-	-	1,440
Other liabilities	13,145	-	-	-	-	13,145
Total liabilities	124,277	-	-	-	-	124,277
Commitments and contingencies	14,303	25,137	-	-	-	39,440
Equity of investment account holders	1,887	-	-	-	-	1,887

38 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.

39 COMMITMENTS AND CONTINGENCIES

The Group has issued financial guarantees totaling USD 30.86 million (30 June 2019: USD 29.01 million) in respect of a number of its investee companies on which no losses are expected. The Group also had commitments to invest of USD 14.97 million (30 June 2019: USD 10.43 million).

40 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 Audit & Risk Committee of the Board has the overall responsibility for this function, which is managed by the Management's Executive Committee through the Risk Management Department.

The Risk Management Department independently identifies and evaluates risks in respect of each investment proposal, and periodically monitors and measures risks at investment and statement of financial position level. The Head of Risk Management reports to the Audit & 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 2020.

40 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 36.

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.

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

	30 June 2020 USD '000	*30 June 2019 USD '000*
Balances and placement with banks	**158**	-
Murabaha financing to investee companies	**654**	36,410
Wakala contract receivable	**13,341**	13,341
Receivables	**9,739**	9,740
Funding to project companies	**1,099**	70
Other assets	**9,117**	2,711
Total	**34,108**	62,272

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 38.

At 30 June 2020, the total gross credit exposure to individual counterparties which comprised 10% or more of the Group's equity was USD 147,443 million relating to 16 counterparties (30 June 2019: USD 112.2 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.

40 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 36 for the expected maturity profile of assets and liabilities.

	Gross undiscounted cash flows					
30 June 2020	***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	88,901	-	-	-	-	**88,901**
Employee accruals	-	-	-	761	35	**796**
Ijarah liability	-	-	-	3,894	-	**3,894**
Other liabilities	950	755	-	2,472	1,672	**5,849**
Total financial liabilities	**89,851**	**755**	**-**	**7,127**	**1,707**	**99,440**
Commitments and contingencies	**10,000**	**139**	**255**	**35,442**	**-**	**45,836**
Equity of investment account holders	**66**	-	-	**1,052**	-	**1,118**

	Gross undiscounted cash flows					
30 June 2019	*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	38,551	-	70,687	6,646	-	115,884
Employee accruals	1,272	-	-	168	-	1,440
Other liabilities	8,029	2,591	853	488	1,184	13,145
Total financial liabilities	47,852	2,591	71,540	7,302	1,184	130,469
Commitments and contingencies	10,000	160	275	29,005	-	39,440
Equity of investment account holders	66	-	-	1,821	-	1,887

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.

40 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 2020	*30 June 2019*
Placements with financial institutions	**0.00%**	2.00%
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 2020 USD '000	*30 June 2019 USD '000*
100 bps parallel increase / (decrease)		
Placements with financial institutions	**± 29**	± 29
Islamic financing payables	**± 889**	± 1,097

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:

	2020 USD '000	*2019 USD '000*
Kuwaiti Dinars	**1,182**	4,268

40 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 2020 and 30 June 2019 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 2020		*30 June 2019*	
	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%	**118**	-	427	-
Great Britain Pounds	+10%	**0.3**	-	0.3	-
Kuwaiti Dinars	-10%	**(118)**	-	(427)	-
Great Britain Pounds	-10%	**(0.3)**	-	(0.3)	-

(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 6 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 2020		*30 June 2019*	
		Effect on profit USD '000	***Effect on equity USD '000***	*Effect on profit USD '000*	*Effect on equity USD '000*
Trading securities	+10%	**118**	**-**	409	-
Available-for-sale	+10%	**-**	**-**	-	-
Trading securities	-10%	**(118)**	**-**	(409)	-
Available-for-sale	-10%	**-**	**-**	-	-

40 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 regulatory capital position was as follows:

	30 June 2020 USD '000	*30 June 2019 USD '000*
Total risk weighted assets	**913,089**	948,406
CET1 capital	**22,130**	102,487
Additional Tier 1	**-**	-
Tier 2 capital	**4,265**	2,940
Total regulatory capital	**26,395**	105,427
Total regulatory capital expressed as a percentage of total risk weighted assets	**2.89%**	11.12%
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 independent valuations. Certain adjustments are made to IFRS and AAOIFI based results and reserves, as prescribed by the CBB.

Total CAR amounting 2.89% as of 30 June 2020, is in breach of the minimum requirement of 12.5% as prescribed under CA-2.2.1 of Volume 2 of the CBB rule book.

41 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 2020	***Level 1 USD 000***	***Level 2 USD 000***	***Level 3 USD 000***	***Total USD 000***
Held for trading	**1,178**	**-**	**-**	**1,178**
Fair value through profit or loss	**-**	**-**	**35,734**	**35,734**
	1,178	**-**	**35,734**	**36,912**

30 June 2019	*Level 1 USD 000*	*Level 2 USD 000*	*Level 3 USD 000*	*Total USD 000*
Held for trading	4,090	-	-	4,090
Fair value through profit or loss	-	-	71,073	71,073
	4,090	-	71,073	75,163

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 2020 USD 000	*30 June 2019 USD 000*
At 1 July	**71,073**	95,746
Fair value losses recognised in the consolidated statement of income - net	**(31,031)**	(35,615)
(Sale of) / additional investments during the year - net	**(4,308)**	10,942
At 30 June	**35,734**	71,073

41 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 management, based on information and discussion with representatives of 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 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 5.9% to 18.4%. 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 a1% increase in the discount rates, which is a key variable used in the valuation technique, would decrease the fair values by approximately USD 1,589 thousand, whereas a 1% decrease in the discount rate would increase the fair values by approximately USD 1,712 thousand. The potential income effect of a 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 25 thousand or reduce the fair values by approximately USD 25 thousand respectively.

Investments amounting to USD 39,466 thousand (30 June 2019: USD 35,819 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 values.

42 COVID-19 PANDEMIC

The outbreak of Novel Coronavirus (COVID-19) continues to progress and evolve. Therefore, it is challenging now to predict the full extent and duration of its business and economic impact. The outbreak of COVID-19 has had an impact on demand for oil and petroleum products. Recent global developments in 2020 have caused further volatility in commodity markets.

The extent and duration of such impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the transmission rate of the coronavirus and the extent and effectiveness of containment actions taken. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorisation of these consolidated financial statements. These developments could impact the Group's future financial results, investment valuation, cash flows and financial condition.