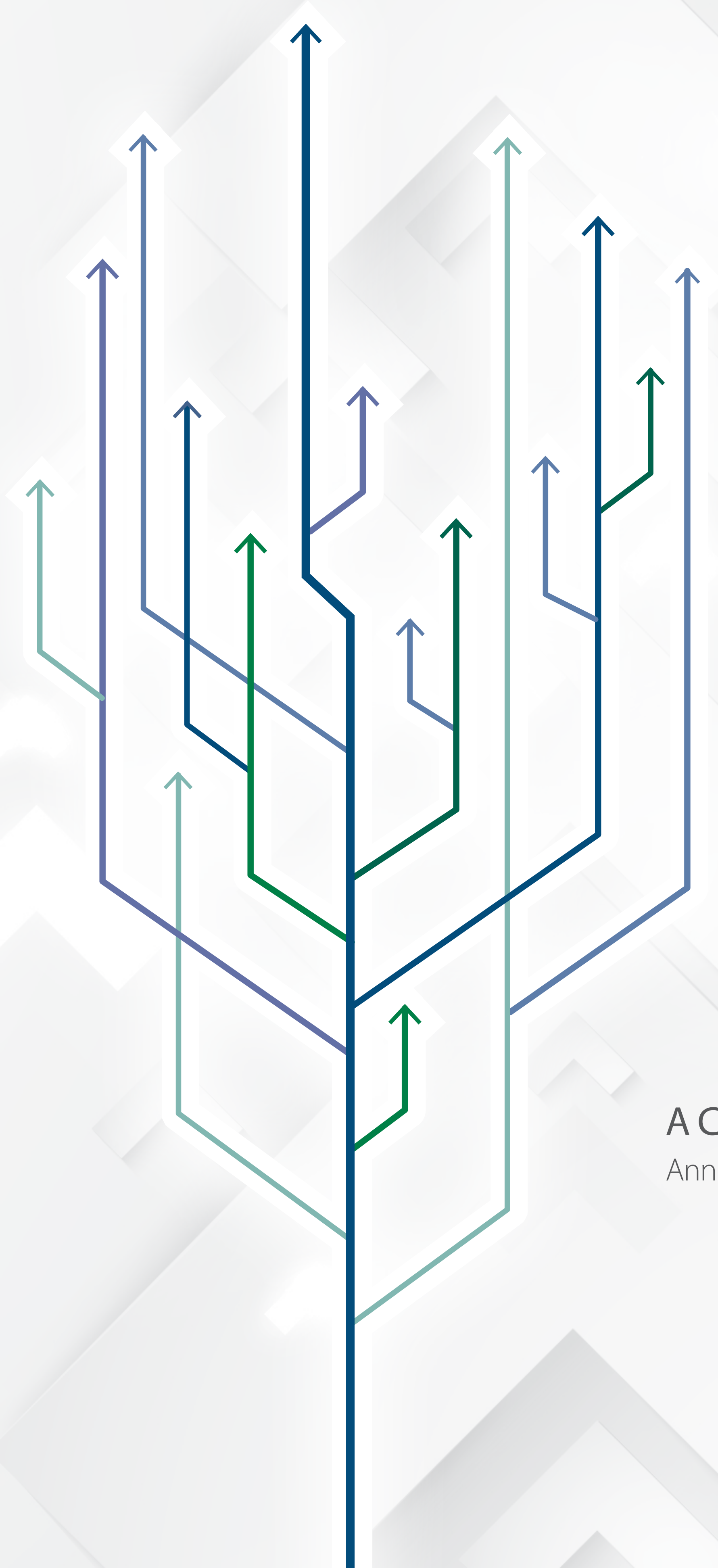
VENTURE CAPITAL BANK



A Clear Path to **Future Growth**

Annual Report 2019 - 2020

بسم الله الرحمن الرحيم

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Licenced as an Islamic Wholesale Bank by the Central Bank of Bahrain

Contents

Corporate Profile
A Regional Pioneer

Commencing operations in October 2005, Venture Capital Bank pioneered the provision of venture capital investment opportunities and dedicated support for the SME sector in the MENA region, within an Islamic investment banking framework.

This approach underlines the commitment of the Bank's founding shareholders to partner with like-minded investors in channelling funds towards innovative investment opportunities that would stimulate the growth and development of regional economies.

In light of subsequent economic, financial and socio-political crises, VCBank has progressively realigned its investment strategy and business model to face the challenges of a new economic norm and changing market dynamics.

Today, the Bank is a prominent Shari'ah-compliant alternative asset manager, with a primary focus on income-yielding real estate assets and selective private equity investments. VCBank's objective is to generate consistent returns with calculated risk from high-quality, rigorously-investigated, efficiently-structured and well-managed investment opportunities.

The Bank's investment portfolio is prudently diversified by geography and sector in order to minimise concentration risk and better withstand market volatility, with core markets being the GCC and MENA regions, Turkey, USA and UK. VCBank has also developed a distinctive capability and competitive edge in key sectors such as healthcare, agriculture and food, fertilizers, income-yielding real estate, and liquidity programmes. The Bank adds value to its portfolio companies through active participation and support, in order to maximise the exit potential of its investments.

With an authorised capital of US$ 500 million and paid-up capital of US$ 190 million, VCBank operates under an Islamic wholesale banking licence from the Central Bank of Bahrain. The Bank benefits from the financial backing and support of a prominent group of regional shareholders, an experienced team of industry professionals, and a close-knit network of strategic business partners.

VISION
Our vision is to be a leading regional Shari'ah-compliant investment bank, helping to drive business growth, and supporting the economic and social development of the GCC and MENA regions.

MISSION
Our mission is to maximise shareholders' value and clients' wealth through identifying promising investment opportunities that generate consistent risk-adjusted returns; while delivering the highest standards of client service.

VALUES
The values of performance, innovation, client service, teamwork and Shari'ah compliance, guide us in our personal and professional behaviour. The adoption of international standards and global best practice governs the way we manage the operations of the Bank across all areas of activity.

Chairman's Statement

Abdulfatah Mohammed Rafie Marafie
Chairman of the Board
State of Kuwait

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 licence conversion.

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.

"With our debt restructuring process close to completion and the licence conversion process at an advanced stage, the Board looks forward to re-establishing Venture Capital Bank as a soundly-governed, leading regional financial institution."

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 licenced 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 licence, 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 Mohammed Rafie Marafie
Chairman of the Board

VENTURE CAPITAL BANK | Annual Report 2019 - 2020

Board of Directors

Abdulfatah Mohammed Rafie Marafie
Chairman
State of Kuwait

Marwan Ahmad Al Ghurair
Deputy Chairman
United Arab Emirates

Dr. Mohammed Ahmed Jumaan
Board Member
Kingdom of Bahrain

Adel Mohammed Abunayyan
Board Member
Kingdom of Saudi Arabia

Adwan Mohammad AlAdwani
Board Member
State of Kuwait

Mohammed Abdulrazzaq Alkandari
Board Member
State of Kuwait

Dr. Abdulaziz Fahad Al Dakheel
Board Member
Kingdom of Saudi Arabia

Fahad Saad Almoammar
Board Member
Kingdom of Saudi Arabia

Shari'ah Supervisory Board

Shaikh Dr. Nidham Mohammed Saleh Yaqooby
Chairman

Shaikh Dr. Yaqooby holds a Doctorate in Islamic Studies and a BA degree in Economics & Comparative Religion from McGill University, Canada. He has been guided in Traditional Islamic Studies by eminent Islamic scholars from Saudi Arabia, Bahrain, Egypt, Morocco and India. During the 1990s, he was a Khatib in the Kingdom of Bahrain, and since 1976 has taught a range of Islamic topics. Shaikh Yaqooby is a Member of the Shari'ah Supervisory Board of several Islamic banks, and is a Member of the following institutions: Shari'ah Council of the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI), Shari'ah Council of the Islamic Rating Agency, Shari'ah Board of the Central Bank of Bahrain, and the Dow Jones Islamic Index. He is also a regular speaker at Islamic conferences and forums.

Shaikh Dr. Abdul Sattar Abdul Kareem Abu Ghuddah
Member

Shaikh Dr. Abu Ghuddah holds a PhD in Shari'ah from the Al-Azhar University, Cairo, Egypt. He is a Member of the Islamic Fiqh Academy, which evolved from the Organisation of Islamic Conference in Jeddah, Kingdom of Saudi Arabia. He previously held the positions of Expert and Reporter for the Islamic Fiqh Encyclopedia, Ministry of Awqaf & Islamic Affairs, State of Kuwait. He is a Member of the Shari'ah Supervisory Board of several Islamic financial institutions, and a Member of the Standards Board and Shari'ah Council of the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI). Dr. Abu Ghuddah is the author of several specialist books in Fiqh & Fatwa of modern Muamalat and publications on different Islamic subjects, and a regular speaker at Islamic conferences and forums.

Shaikh Dr. Abu Ghuddah sadly passed away on 21 October 2020. May God rest his soul in eternal peace.

Shaikh Dr. Essa Zaki Essa
Member

Shaikh Dr. Essa holds a PhD in Comparative Fiqh from the Islamic University, Al Madina Al Munawarah, Kingdom of Saudi Arabia. He is an Assistant Professor at the College of Basic Education, Public Authority for Applied Education & Training, State of Kuwait. Dr. Essa is a Member of several Fatwa and Shari'ah Boards and Committees. He is the author of several books and publications on different Islamic subjects, and a regular speaker at Islamic conferences and forums.

Corporate Overview
Business Overview
Financial Statements

The way forward for VCBank lies in capitalising on its core business activity as an alternative asset manager with a primary investment focus on income-yielding real estate assets and selective private equity opportunities.

VENTURE CAPITAL BANK | Annual Report 2019 - 2020

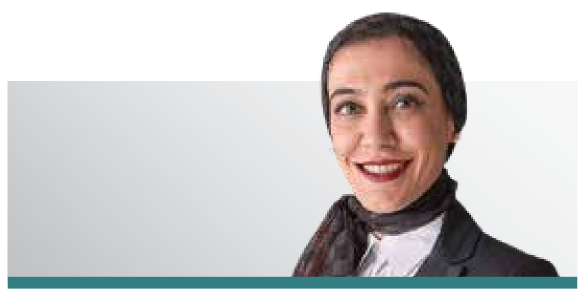
Executive Management

Robert C. Wages
Acting Chief Executive Officer
Head of Investments & Post-Acquisition

Nasir Maqsood
Acting Deputy Chief Executive Officer
Chief Financial Officer

Ahmed Hassan Alabbasi
Director - investments

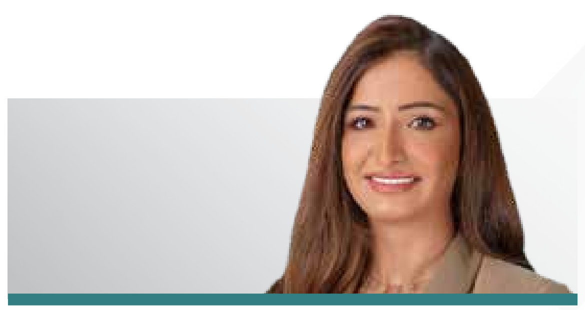
Mahmood Mohammed Zainal
Director - investments



Asya Hasan
Director - Head of internal Audit

Rehan Zulqadar
Director - Head of Risk Management

Jehad Hasan Qamber
Director - Head of Human Resources & Support



Sahar Jafaar Khunji
Director - Head of Investor Relations

With its redefined business model and realigned investment strategy, VCBank is ideally placed to take advantage of emerging business opportunities arising from the anticipated improvement in the global and regional economic environment.

Management Report

Robert C. Wages
Acting Chief Executive Officer
and Head of Investments and Post Acquisition

In what proved to be a pivotal year for VCBank, the Management team engaged constructively with the Board of Directors to address a number of key fiscal and operational challenges, and smooth the way for the planned major realignment of the Bank's business model and strategic direction.

INVESTMENT PORTFOLIO

Throughout the year, we maintained our focus on strengthening the post-acquisition management of our investment portfolio companies. This involved subjecting them to stringent investment stress testing and analysis to determine their most realistic market valuations. At the same time, appropriate remedial action was taken to revive legacy projects affected by financial, economic, market or geopolitical issues.

Encouragingly, we continued to accelerate the pace of investment exits. At the end of the year, negotiations were at an advanced stage for exiting from Mozon in Morocco and QCon in Qatar; while negotiations with interested buyers were underway for OBA Makarna in Turkey, and the Bahrain franchises of Fuddruckers and Caribou. We also concluded partial exits from 24 Buckingham Gate in London, with all apartments and the penthouse having been sold; and from ITWorx through the sale of the company's Education division.

In addition, two prime residential real estate developments made sound progress during the year. In the UK, reconstruction of the iconic Regent's Crescent property is nearing completion, with 55 per cent of apartments and mews houses having been sold; while in Bahrain, additional financing has been secured to complete the full funding requirements of the flagship Difaaf residential development at Reef Island, for which construction is on track.

In terms of future business, we have developed a healthy pipeline of attractive new transactions in the US income-yielding real estate sector. This constitutes a key strategic investment focus for the Bank, in which we have developed a distinct capability and competitive edge.

INVESTOR RELATIONS

We are committed to maintaining the highest standard of mutually-beneficial relationships with our investor and shareholders. To this end, we are in the process of refining the Bank's client relationship management (CRM) system and transferring it to the Cloud, with the aim of improving communications and reporting channels. We have also commenced a major revamp of the Bank's website, which will include a new Client Portal to provide investors and shareholders with real-time access to their investment portfolios.

"The remedial steps we have taken over the past year will enable VCBank to move forward as a soundly-governed, competitive and profitable regional financial institution."

In response to the travel restrictions imposed by the COVID-19 pandemic, the Wealth Management and Investment teams have kept in regular telephone contact with investors across the region, to update them on the latest portfolio company developments; and also to discuss their investment preferences in light of current economic and market challenges. In response, we are developing additional income-yielding and structured treasury solutions to meet demand, and supplement the existing VCBank Liquidity Programme, which is currently being restructured.

INSTITUTIONAL CAPABILITY

During the year, we took decisive steps to strengthen the Bank's institutional capability, with a particular emphasis on reviewing and strengthening our corporate governance and risk management frameworks. Initiatives included restructuring and expanding the Management team; enhancing governance control functions; streamlining back office operations; and bolstering the support infrastructure. We also encouraged the adoption of a greater degree of inter-functional collaboration and sharing of responsibilities.

DIGITAL TRANSFORMATION

Fintech is now firmly recognised as a key strategic business enabler and competitive differentiator for regional financial institutions. During the year, we commenced a major transformation of the Bank's information technology infrastructure, involving the transfer of key applications and services to the Cloud, in order to create a more efficient virtual workflow environment. These comprise the data centre, disaster recovery site, physical file servers, enterprise resource planning, customer relationship management, emails, and internal and external communications. This key exercise also includes the automation and integration of all financial-related systems and processes.

RESPONSE TO COVID-19

The Bank took early steps to address the challenges of the COVID-19 pandemic, in order to minimise disruption to daily operations. In response to the official lockdown, staff were provided with laptops and supporting technology to enable them to work securely from home, which involved the establishment of a virtual private network (VPN), and registration with virtual meeting systems. The Bank also took necessary precautions to ensure the safest possible working environment. These entailed the regular sanitisation of premises; and testing of those staff whose functions necessitate a physical presence at the office.

LICENCE CONVERSION

The proposed conversion of VCBank's regulatory licence from a wholesale bank to an investment business, subject to final regulatory and shareholder approval, makes sound business sense for a number of reasons. These include being more appropriate to our core activity as an alternative asset manager, and the realisation of a more effective and efficient operational structure. In addition, it would relieve the Bank of the growing administrative burden and associated costs of a more stringent wholesale banking regulatory regime covering areas such as liquidity, risk management and capital adequacy. Importantly, it would also enable VCBank to compete on an even playing field with its regional peers.

LOOKING AHEAD

Given the remedial steps we have taken over the past year, and with the licence conversion process at an advanced stage, we view the future with a greater degree of confidence and optimism. VCBank is now a leaner, more efficient and focused financial institution, with a strong shareholder and investor base, healthier underlying assets, and an attractive pipeline of new business opportunities. These factors will enable us to move forward as a soundly-governed, competitive and profitable regional financial institution.

Robert C. Wages
Acting Chief Executive Officer
and Head of Investments and Post Acquisition

Investment Portfolio Review

This Review provides an update of key investment developments that occurred during fiscal year 2020. Full details of VCBank's Investment Portfolio are listed on the Bank's website: www.vc-bank.com.

REAL ESTATE

GLENBRIDGE MANORS, USA

VCBank and its investors hold a 90 per cent stake in this 'garden and townhouse-style' gated community, which comprises 274 apartments set amid scenic landscaping and extensive amenities. Located in one of Cincinnati's most desirable residential areas, Glenbridge Manors is rated as a grade 'A-' high-quality asset with a superior location. At the date of acquisition, Glenbridge Manors was expected to provide investors with quarterly distributions equating to an annual cash-on-cash return of 8.5 per cent. However, returns were temporarily affected during the second half of fiscal 2020 due to the impact of COVID-19 on occupancy levels and defaults.

WESTHAVEN AT VININGS, USA

VCBank and its investors own a 90 per cent interest in the WestHaven at Vinings property in Atlanta, Georgia, USA. The property is a garden and town home-style apartment community located 12 miles northwest of downtown Atlanta. It comprises 610 units built to a grade 'A' standard, with a superior amenity package. The property has been paying investors quarterly distributions in line with the expected annual cash return of 8.5 per cent. However, returns were temporarily affected during the second half of fiscal 2020 due to the impact of COVID-19 on occupancy levels and defaults.

REGENT'S CRESCENT, UK

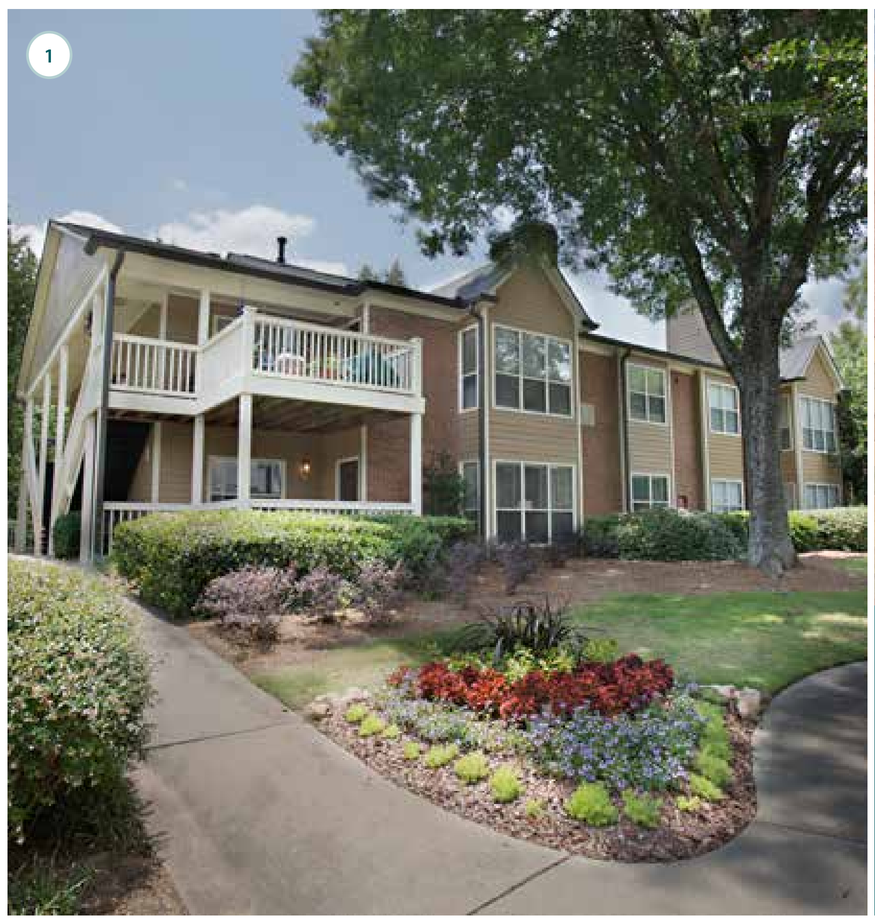
VCBank has invested in the acquisition and development of an iconic property in one of London's most prestigious residential areas. Regent's Crescent was originally designed as one of the main gateways to Regent's Park by the famous architect John Nash in the early 19th century. The project involves demolishing the existing commercial-use sections, and redeveloping it into a fully residential scheme offering 77 high-specification apartments and garden villas, while retaining the magnificent Nash frontage. The project has made excellent progress to date, and completion is expected by the end of 2020, with 55 per cent of apartments having been sold.

24 BUCKINGHAM GATE, UK

VCBank structured and advised on a transaction for a select group of investors to acquire a prime freehold residential site under redevelopment in London, UK. Situated in the heart of Westminster, 24 Buckingham Gate comprises eight luxury apartments, each occupying one whole floor; together with a luxury, two-storey penthouse. The apartments and penthouse have all been sold, with full exit from this investment due to take place following sale of the freehold.

DIFAAF

This architecturally-distinguished real estate development is strategically located on the prestigious residential development of Reef Island, Manama, Bahrain. The project consists of two high-rise residential towers comprising 534 residential units, and a range of recreational amenities. The project is currently in progress and has reached 30% completion as of October 2020.



1. West Haven
2. DIFAAF
3. Fuddruckers

ONE BAHRAIN

This iconic high-rise waterfront tower occupies a prime location on Reef Island, measuring 14,000 square metres. The property will feature 160 apartments for sale to end-users, together with 180 professionally-managed serviced apartments for sale to individual and corporate real estate investors. The project team has obtained all the permits and approvals to commence construction.

GREAT HARBOUR

Great Harbour is a seafront plot measuring over 35,000 square metres in Hidd, Bahrain. Formal approval from the relevant authorities for the subdivision of the land was obtained and the Bank is currently working on selling the subdivided lands to exit from this investment.

BAYAN

Bayan Real Estate Company has been established to address the acute shortage of residential units by providing quality housing for middle income nationals in the Kingdom of Saudi Arabia. The Company's main project is the development of Bayan Al-Aziziyah project. The Al-Aziziyah project sits on a 625 thousand square meter plot and located in the Aziziyah district of Al Khobar and will comprise of once constructed an integrated residential development that will include 800-1000 residential villas. The Al-Aziziyah project has been significantly delayed due to complications in relation to its title deed which began in May 2015 and has only been finally resolved in October 2020. The Company will now focus on the development and completion of the Al-Azizyah project.

THE WORLD DEVELOPMENT COMPANY

VCBank owns a 900,000 square-foot island plot in The World, an iconic residential and leisure community located off the coast of Dubai, UAE. The land is free of any commitments and obligations, and has substantial built-in value comprising project studies, detailed designs and regulatory approvals. The Company plans to develop a high-end residential and leisure community comprising 122 individually-designed and carefully-zoned residential units, ranging from junior suites to four-bedroom signature villas, with canal-side or waterfront settings.

GLOREI

The Global Omani Development & Investment Company (GLOREI) provides VCBank with a platform for real estate investment opportunities in Oman. To date, the Company has successfully executed deals in the hospitality and logistics sectors, as well as certain sub-sectors of real estate. However, the COVID-19 pandemic has affected tourism-related developments, and the Company is planning to exit some projects through the sale of assets.

VENTURE CAPITAL BANK | Annual Report 2019 - 2020

Investment Portfolio Review continued

PRIVATE EQUITY

OBA MAKARNA

OBA's pasta brand is ranked number one in Turkey and second in the world in terms of capacity, equating to a daily 1,500 tons of wheat crushing per day and 1,000 tons of pasta production. OBA offers 40 different products which are exported to 85 countries, including the UK, Germany, Africa, China, South Korea, India and the Middle East. VCBank is currently at an advanced stage of negotiations to exit its investment.

FUDDRUCKERS & CARIBOU

VCBank owns a 60 per cent direct equity stake in the Fuddruckers Restaurant and Caribou Coffee franchises in the Kingdom of Bahrain, which have been operating successfully since 1995 and 2007, respectively. Fuddruckers was one of the pioneers of casual dining in Bahrain, while Caribou is one of the leading coffee house chains. Following acquisition, the Bank embarked upon a renovation programme of all outlets for both franchises; and a rapid expansion plan for Caribou that included the opening of 10 new stores.

GERMAN ORTHOPAEDIC HOSPITAL

Conceived and developed by VCBank, this orthopaedic specialist hospital has earned a reputation for world-class orthopaedic treatment and surgery for patients in Bahrain and the GCC. During fiscal 2020, VCBank appointed a technical consultant to improve the hospital's operation and financial performance. An application has been made in 2020 to Bahrain's National Health Regulatory Authority to expand the specialties from only orthopaedic services to more specialties in order to diversify the hospital's revenue stream and be more competitive.

GOKNUR

VCBank and its investors hold an 83.5 per cent stake in Goknur Foods Import-Export Trading & Distribution Company (Goknur), the largest fruit juice concentrate and fruit puree producer and exporter in Turkey. The Company is successfully implementing growth initiatives which focus on strategically expanding its business lines and geographic footprint. These include the development of new products directly targeting the health foods sector; an expansion of its white labelling activities in the USA; and testing market opportunities in China. Earmarked by VCBank for exit, Goknur has attracted a number of interested buyers.

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4. The World
5. Goknur
6. Delta

DELTA

VCBank holds a 45 per cent shareholding in Delta Company Limited, one of the leading electric power contractors in Saudi Arabia specialising in the fields of electrical power, transmission and distribution. The Company has maintained profitability despite challenges including a slowdown in power spending over the past three years. Delta is expected to benefit from a number of additional contracts due to the recent resumption of several large government backed infrastructure projects.

TURKEY FARMLAND

VCBank along with its investors currently own over 10 million square metres of farmland in Turkey, with a total planted area of approximately 8 million square metres; and more than one million organic apple, pear, sour cherry and peach trees having been planted. The land has been leased to Goknur Foods Import-Export Trading & Distribution Company – the leading Turkish fruit concentrate company – which will handle the entire process of plantation, harvesting, marketing and sales through a management and off-take agreement. The Company is focused on acquiring and planting farmlands that are adjacent to each other in order to expedite revenue generation and minimise costs associated with planting. In addition, it continues to explore diversification through new business activities that can complement its core operations.

LEMISSOLER

The investment in Lemissoler, a Bahrain based ship owning company, was made in 2008. The Company operated a fleet of 4 specialized commercial vessels and containerships under long term, fixed rate time charters with blue chip companies. The Company has sold all of its fleet which had been operating under profitable medium-term fixed rate charters. The proceeds of the sale were used to settle all outstanding liabilities, and the company is in the process of liquidation.

Investment Portfolio Review continued

MENA SHIPCO
This proprietary and structured investment in the shipping sector was made in 2011. The Company owned 3 modern 57,000 DWT Supramax Bulk Carriers, which were deployed on short-term time charters with reputable companies across various global shipping routes. As part of exit strategy, the Company sold its fleet of three Supramax bulk carrier vessels and the proceeds of the sale were used to cover all outstanding liabilities. The Company is now in the process of liquidation.

MENA SME FUND
This 'first-of-its-kind' Fund was launched by VCBank in June 2006, to pursue superior risk adjusted return by investing in small and medium enterprises (SMEs) throughout the MENA region. The Fund was established to give investors the opportunity to be a part of the region's economic development, while cultivating the rapidly expanding base of SMEs throughout the MENA region. The Fund aimed to provide direct funding solutions, and financial and administrative support, to promising, rapidly-growing enterprises with well-structured management and high potential for profitability. The Fund's portfolio companies are JAFCCO, QCon, ITWorx and Challenger Limited. Due to the expiry of the Fund's original terms, during 2020, the Fund applied to the regulatory authorities for a further two-year extension.

JAFCCO
In 2007, VCBank along with its investors funded the strategic growth plan of JAFCCO. This comprised the development of a state-of-the-art industrial complex specialising in the manufacture of chemical fertilizers and other kinds of chemicals that previously had to be imported into the MENA region. Since its incorporation in 1997, JAFCCO has established a strong name in the chemical fertilizers industry, specializing in the manufacture of high-quality sulphate of potassium (SOP) and hydrochloric acid (HCL) as a by-product of SOP. Due to a combination of technical and geo-political issues, operations ceased in 2020. VCBank is currently in discussions with several potential strategic investors with the objective of restarting operations under new management, through which to generate a partial or full exit.

QCON
Established in 1975, Qatar Engineering & Construction Company (QCon) is a leading maintenance and engineering, procurement and construction (EPC) contracting company, specialising in projects and plant maintenance for the oil and gas, petrochemicals, fertilisers, power and other industrial infrastructure sectors. The Bank is currently in advanced discussions to exit this investment.

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7. Glenbridge
8. ITWorx
9. The Lounge

ITWORX
ITWorx is one of the largest software outsourcing firms in Egypt, with offices in Saudi Arabia, UAE, Qatar, Europe and the USA. A key development during fiscal 2020 was the successful sale of the Education business. The Development business is performing better than expected due to increased demand resulting from a change in companies' operating models caused by COVID-19. ITWorx recently launched a new product for the airline industry.

CHALLENGER
Established in 1991, Challenger is an international provider of contract oil and gas land drilling and workover services, headquartered in Egypt and operating mainly in Libya with a fleet of 29 rigs. Challenger's operations have been adversely impacted by subsequent deteriorating geo-political conditions in Libya, together with the recent severe volatility in oil prices. The Company currently has seven active rigs under contract.

SVCIC
VCBank established SVCIC in 2007 to capitalise on the significant potential of investment banking activities in the Kingdom of Saudi Arabia. Licenced by the Saudi Capital Market Authority, SVCIC focuses primarily on investing in promising small-to-medium enterprises in the Kingdom. Due to continued challenging market conditions, the Company is currently conducting a two-tranche capital reduction plan, as well as implementing a number of cost-cutting measures.

THE LOUNGE
The Lounge commenced operations in 2008 on the sixth floor of the Venture Capital Bank building in Bahrain's Diplomatic Area, to provide specialist serviced offices. Since then, the company has made excellent progress in terms of consistent revenues, tenant retention and high occupancy levels. To meet growing demand for managed office space, which has been intensified by COVID-19, The Lounge is currently in the process of renting additional space in VCBank building.

MOZON
Mozon Investment Holding Company, which was established to provide VCBank with an investment platform for opportunities in Morocco, has completed a number of investments in the education and affordable housing sectors. VCBank is currently in advanced discussions to exit this investment.

Investment Portfolio Review continued

TREASURY SOLUTIONS

VCBANK LIQUIDITY PROGRAMMES

VCBank offers three innovative Shari'ah-compliant short-term liquidity programmes with trust certificates and shares backed by income-yielding real estate assets in Bahrain and Dubai. The offering of each programme is for a maximum period of one year. The profit rate ranges between six per cent for investments held for twelve months and four per cent for one month, with profits being distributed on a quarterly basis.

Programme 1, which was launched in 2010, is backed by the Venture Capital Bank Building located in the Diplomatic Area of Manama, Bahrain. This comprises a unique combination of office space, retail outlets, and private and public car parking. Programme 2, introduced in 2015, is backed by first building of the Jebel Ali Labour Accommodation Complex in Dubai; while the Programme 3, launched in 2016, is backed by the second and third buildings of the complex.

The value of the underlying asset of Programme 1 – Venture Capital Bank Building – has been affected by lower occupancy rates resulting from changing real estate market dynamics in Bahrain. Key factors include reduced demand for conventional office space (and associated car parking) due to the growing trend towards serviced offices; and a change in companies' operating models with a greater focus on remote working by staff, caused by COVID-19. The value of the underlying asset of Programmes 2 & 3 – Jebel Ali Labour Accommodation Complex – has been affected by the large reduction in the number of labourers due to the slowdown in construction activity in the UAE, with a resulting oversupply of approved labour accommodation. In addition, the age of the three buildings makes the complex less competitive compared to newer properties in the market.

A number of clearly-defined remedial steps are being taken to address these issues. These will facilitate implementation of a major restructuring exercise aimed at enhancing the attractiveness and sustainability of these programmes.

VENTURE CAPITAL BANK | Annual Report 2019 - 2020

Corporate Functions

POST-ACQUISITION

VCBank adopts a qualitative-based approach towards the post-acquisition management of its portfolio companies. This entails a thorough analysis of the companies and their operating markets, with a focus on identifying problem assets requiring attention and the most eligible candidates for exit in the short to medium term. The main objective of the Post-Acquisition function is to maximise the value of the Bank's investment portfolio assets. This entails thoroughly understanding each asset by evaluating them on a highly systematic basis with the assistance of external experts who possess the appropriate market and sector knowledge. Significantly, it involves the utilisation of sophisticated analytical techniques and international best practices that are new to the region.

During the year, portfolio companies continued to be subjected to thorough investment stress testing and analysis to determine the most realistic valuations. In addition, significant progress was made in expediting the Bank's investment exit strategy. Exits from Mozon in Morocco and QCon in Qatar are in the final stages of being concluded; while letters of intent are expected from interested buyers for OBA Makarna in Turkey, and the Bahrain franchise of Fuddruckers and Caribou.

WEALTH MANAGEMENT

Wealth Management is responsible for developing and maintaining relationships with VCBank's broad network of institutional investors and high-net-worth individuals across the GCC. The Bank has also established a number of strategic relationships with certain institutions interested in particular types of investment offerings. The Wealth Management team consists of highly-qualified and experienced professionals who have consistently demonstrated their technical ability to place a wide range of products across different sectors. Acting as the main point of contact for investors, team members deliver regular portfolio updates, introduce new investment opportunities, offer insight into local and regional markets, and provide financial advisory to their clients.

Investor sentiment during the year was affected by continued economic and market volatility, depressed oil prices, heightened regional geopolitical tensions, deteriorating global trade relations, and the COVID-19 pandemic. In response to travel restrictions, the Acting CEO and Head of Investments & Post Acquisition, and the Wealth Management team, kept in regular telephone contact with investors across the region, to update them on the Bank's portfolio company developments and discuss their investment preferences.

VENTURE CAPITAL BANK | Annual Report 2019 - 2020

Corporate Functions continued

INVESTOR RELATIONS

The Investor Relations department is responsible for providing up-to-date information about the Bank's operations and delivering regular portfolio update reports, in order to help clients and shareholders make the most informed investment decisions. The department also manages the Bank's corporate communications activities. Investor Relations, which reports directly to the Chief Executive Officer, works closely with various departments including Investments, Post-Acquisition, Wealth Management, Financial Control, Risk Management and Compliance, to provide the highest levels of client service in accordance with investor-related regulatory requirements of the Central Bank of Bahrain. The semi-annual Investment Portfolio reports were enhanced during the year with the addition of updated information to provide clients with a clearer picture of the true worth of their investments.

VCBank maintains full compliance with the regulatory requirements of the Common Reporting Standard (CRS) and US Foreign Account Tax Compliance Act (FATCA); and annual reporting was carried out well before the submission deadline during FY 2020. The Bank is currently in the process of enhancing its client relationship management (CRM) system by transferring it to the Cloud. The CRM system is constantly updated to keep pace with the latest technological and regulatory changes in order to offer the highest levels of support for shareholders and investors. VCBank is also in the process of revamping its website, which will include a new Client Portal, providing investors and shareholders with real-time access to the latest status of their portfolios.

HUMAN RESOURCES & SUPPORT

Following the resignation of the Chief Executive Officer (CEO), the Management team was restructured and expanded during FY 2020. It is headed by the Acting CEO and Head of Investments & Post-Acquisition, supported by the Acting Deputy CEO and Chief Financial Officer. The Bank's institutional capability was strengthened with the appointment of a new Head of Risk Management and a new Head of Treasury; while recruitment is underway for a new Head of Compliance. With a current total headcount of 30 staff, VCBank is a lean, efficient and focused institution; and benefits from enhanced sharing and collaboration between individuals and teams, and front and back office functions.

The Bank took early steps to address the challenges of the COVID-19 pandemic, in order to minimise disruption to daily operations. In response to the initial official lockdown, staff were provided with laptops and supporting technology to enable them to work securely from home. This involved the establishment of a virtual private network (VPN), and registration with virtual meeting systems to facilitate smooth internal and external communications. The Bank also took necessary precautions to ensure a safe working environment, entailing the regular sanitisation of premises; and testing of those staff whose functions necessitate a presence at the office.

INFORMATION TECHNOLOGY

A major transformation of the Bank's information technology infrastructure commenced during the year, involving the transfer of key applications to the Cloud, in order to create a more efficient virtual workflow environment. These comprise the data centre, disaster recovery site, file servers, enterprise resource planning, customer relationship management, and emails. This key exercise also includes the automation and integration of all financial-related systems and processes; plus the introduction of enhanced reporting and communication channels with shareholders and investors.

The benefits to the Bank from this phased revamp already include staff being able to work and communicate securely from home; an online approval system incorporating e-signatures; a 75 per cent reduction in the number of physical servers; and considerably less use of printers and paper. These developments have resulted in greater accuracy and productivity, and lower operating costs.

Corporate Governance Review

VCBank is committed to upholding the highest standards of corporate governance in full compliance with relevant governing laws, regulations and international best practice. The Bank has put in place a robust and comprehensive Corporate Governance Framework (the Framework) aimed at ensuring the adoption of the highest standards of ethical conduct, transparent and prudent disclosures, and operational effectiveness; while protecting the rights and interests of all stakeholders.

The Framework has been designed in accordance with the Eleven Principles of the Kingdom of Bahrain's Corporate Governance Code, which was issued by the Ministry of Industry, Commerce and Tourism and embraced by the Central Bank of Bahrain (CBB). The adoption and implementation of such regulations, along with the continuous review and adherence to the Bank's Corporate Governance Framework, is the direct responsibility of the Board of Directors.

KEY ASPECTS OF VCBANK'S CORPORATE GOVERNANCE FRAMEWORK

1. A comprehensive set of Charters and Job Descriptions that clearly articulate the roles, responsibilities and mandate of the Board of Directors, Board Committees, the Executive Management and the Control Functions, as well as all other key functions within the Bank.
2. A comprehensive set of Policy and Procedures Manuals which navigate the governance culture of the Bank.
3. Effective and independent Board oversight through the formation of four independent Board Committees, and through the Bank's Control Functions, with clear, direct and independent reporting lines.
4. A reputable and independent Shari'ah Supervisory Board.
5. A comprehensive annual self-assessment and evaluation of the Board and its Committees.
6. An effective set of Policies and Procedures to govern the activities of the Bank's Business Units and Support Functions.
7. An up-to-date and adequate formal succession plan for the Bank's key positions.

KEY DEVELOPMENTS DURING THE YEAR

- Mr. Saleh Mohammed Al Shanfari, Mr. Mohammed AlSarhan and Mr. Abdullatif Janahi resigned from the Board during the period.
- Dr. Abdulaziz Dakheel and Mr. Fahad AlMoammar were elected as an independent and non-executive Director in February 2020.
- The Board of Directors comprised eight members at the end of the fiscal year.
- The Audit Committee was merged with the Risk Committee to form Audit & Risk Committee.
- The Board has formed a temporary Steering Committee to act as an advisory committee to the board.

* Dr. Abdulaziz Dakheel resigned during September 2020 and Mr. Fahad AlMoammar resigned during July 2020.

BOARD OF DIRECTORS

The Board of Directors constitutes the central leadership of VCBank, and is responsible for the stewardship of the Bank's business and affairs on behalf of its shareholders. The Board is also responsible for articulating the Bank's objectives, strategies and risk appetite with a view to enhancing long-term shareholder value; while taking into account the interests of all relevant stakeholders, and maintaining the highest standards of transparency and accountability. The Board ensures that high ethical standards are established across the Bank, and regularly reviews and monitors the Bank's compliance with the regulations of the Central Bank of Bahrain (CBB). Based on VCBank's Memorandum and Articles of Association, the Board will comprise a maximum of 13 members, representing a mix of high-level professional skills and expertise, and with the majority being Independent Non-Executive Directors. The appointment of Directors is subject to the prior approval of the CBB and the shareholders, with classification of Directors in line with the definition stipulated in the CBB Rulebook. Board Members' profiles are listed at the end of this Review.

SYSTEM FOR ELECTION AND TERMINATION OF DIRECTORS

The system for the election and termination of Directors is governed by the Bahrain Commercial Companies Law and VCBank's Articles of Association (Articles 23 & 32).

"The Board of Directors constitutes the central leadership of VCBank, and is responsible for the stewardship of the Bank's business and affairs on behalf of its shareholders."

BOARD COMMITTEES AND MEMBERSHIP BEFORE THE NEW CHANGES

Board Committee	Member's Name	Member's Position
Nomination, Remuneration & Corporate Governance Committee	Mohammed AlSarhan Abdulfatah Marafie Saleh Al Shanfari	Chairman Deputy Chairman Member
Audit Committee	Marwan Al Ghurair Mohammed Jumaan Adwan Aladwani	Chairman Deputy Chairman Member
Risk Committee	Saleh Al Shanfari Adel Abunayyan Mohammed Al Kandari	Chairman Deputy Chairman Member

BOARD AD-HOC COMMITTEES AND MEMBERSHIP

Board Committee	Member's Name	Member's Position
Real Estate Committee	Abdulfatah Marafie Mohammed Jumaan Adwan Al Adwani Adel Abunayyan	Chairman Deputy Chairman Member Member

Corporate Governance Review continued

THE BOARD COMMITTEES AND MEMBERSHIP AFTER THE NEW CHANGES TO THE COMMITEES STRUCTURE

Board Committee	Member's Name	Member's Position
Nomination, Remuneration & Corporate Governance Committee	Adel Abunayyan Abdulaziz Al Dakheel Fahad AlMoammer	Chairman Deputy Chairman Member
Audit & Risk Committee	Marwan Al Ghurair Mohammed Jumaan Mohammed Al Kandari Fahad AlMoammar	Chairman Deputy Chairman Member

BOARD AD-HOC COMMITTEES AND MEMBERSHIP AFTER THE NEW CHANGES TO THE COMMITEES STRUCTURE

Board Committee	Member's Name	Member's Position
Real Estate Committee	Abdulfatah Marafie Mohammed Jumaan Adwan Al Adwani	Chairman Deputy Chairman Member
Steering Committee	Mohammed Jumaan Mohammed Al Kandari Abdulaziz Al Dakheel	Chairman Deputy Chairman Member

NOMINATION, REMUNERATION & CORPORATE GOVERNANCE COMMITTEE

The mandate of the Nomination, Remuneration & Corporate Governance Committee is to assist the Board of Directors in establishing a fair and transparent nominations process for the appointment and remuneration of Directors, Board Committee members and the Chief Executive Officer, and remuneration of the Executive Management team; and to assist the Board of Directors in fulfilling its responsibilities of corporate governance, developing and recommending changes from time to time in the Bank's corporate governance policy framework, oversight of the Bank's compliance with regulatory requirements, as well as liaising with the Shari'ah Supervisory Board.

AUDIT & RISK COMMITTEE

The mandate of the Audit & Risk Committee is to provide oversight on financial reporting, internal control and risk management, internal and external audit, and adherence to Islamic Shari'ah rules and principles. It is also responsible for recommending the appointment of the external auditors, determining the audit fees and compensation, overseeing the auditors' work, and reviewing the Bank's compliance with legal requirements. Also, the Committee is to maintain oversight of the Bank's risk management framework, including its Basel III framework, covering all risks faced by the Bank as well as its control environment.

VENTURE CAPITAL BANK | Annual Report 2019 - 2020

"The Board is committed to communicating with its shareholders and investors in a professional, transparent, accurate and timely manner, and adopts a number of different ways through which to promote greater understanding and dialogue with all stakeholders."

DIRECTORS' ATTENDANCE AT BOARD & COMMITTEE MEETINGS: JULY 2019 TO JUNE 2020

The Board of Directors and its Committees met regularly during the year towards fulfilling their responsibilities. Directors' attendance for FY 2020 is listed below:

Names of Directors	Board of Directors	Audit Committee	Risk Committee	Nomination, Remuneration & Corporate Governance Committee	Real Estate Committee	Audit & Risk Committee	Steering Committee
Abdulfatah Marafie	11 of 11			2 of 2	3 of 3		
Mohammed Al Sarhan*	5 of 5			1 of 1			
Saleh Mohammed Al Shanfari**	0			1 of 1			
Abdullatif Mohamed Janahi***	6 of 6			2 of 2			3 of 3
Marwan Ahmad Al Ghurair	11 of 11	4 of 4				1 of 1	
Adwan Al Adwani****	10 of 11	1 of 4		1 of 1	3 of 3		
Mohammed Al Kandari	10 of 11	3 of 4				1 of 1	10 of 10
Mohammed Jumaan	10 of 11	4 of 4		1 of 1	2 of 2	1 of 1	10 of 10
Adel Mohammed Abunayyan	10 of 11				2 of 3		
Abdulaziz Dakheel*****	5 of 5						3 of 10 ******
Fahad Almoammar*****	5 of 5					1 of 1	

* Resigned in December 2019
** Resigned in August 2019
*** Resigned in June 2020
**** Reallocated from Audit Committee to Real Estate Committee
***** Elected as an independent and non-executive Directors in February 2020
****** Member joined the Committee at a later stage

Corporate Governance Review continued

BOARD AND BOARD COMMITTEES DEVELOPMENT

BOARD DEVELOPMENT

The annual awareness plan for Board members enables them to carry out their responsibilities in line with recent regulatory developments and market conditions in an informative and effective way. Normally, the awareness plan includes important topics such as corporate governance, compliance and risk management. During the year, the Bank conducted a strategy workshop for Board Members to revisit the Bank's strategic plan and objectives, and revise the strategy in line with market conditions.

BOARD EVALUATION

The Bank has in place a comprehensive Board Evaluation Programme, which is designed to help Directors identify areas for improvement and reinforce their responsibilities. The NRCG Committee annually conducts a self-evaluation of the performance of the Board as well as its Committees.

SHARI'AH SUPERVISORY BOARD

Composed of eminent Shari'ah scholars, VCBank's Shari'ah Supervisory Board is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Shari'ah. Members of the Supervisory Board and their profiles are listed on page 8 of this Annual Report.

MANAGEMENT

The Chief Executive Officer (CEO) is delegated by the Board of Directors with responsibility for the day-to-day management of the Bank. The CEO is supported by a well-qualified and experienced Executive Management team. Executive Managers and their profiles are listed at the end of this Review.

EXECUTIVE MANAGEMENT COMMITTEE

The Executive Management Committee comprises the members of the Executive Management team. The Committee is responsible for assisting the CEO in overseeing day-to-day operations of the Bank; monitoring the performance of business lines and departments in relation to strategy, policies, targets and limits; and conducting investment decisions as delegated by the Board of Directors under the Discretionary Authority Limits (DAL), in addition to asset and liability management.

STRATEGY STATEMENT

VCBank is the first Islamic investment bank in the MENA region to specialise in small-to-medium enterprise (SMEs) capital investment opportunities. Offering clients a broad range of superior products and services across a number of promising asset classes in the region, the Bank focuses on revenue-generating real estate investments, greenfield business development opportunities and very selective private equity transactions. The Bank's strategy and business model is reviewed annually.

CODE OF CONDUCT

The Bank has developed a Code of Conduct which contains rules on professional conduct and ethical behaviour that are applicable to the Directors and employees of the Bank. The Code is designed to guide all Directors and employees in fulfilling their responsibilities and obligations towards the Bank's stakeholders, in compliance with all applicable laws and regulations.

SHAREHOLDER / INVESTOR COMMUNICATION & AWARENESS

The Board is committed to communicating with its shareholders and investors in a professional, transparent, accurate and timely manner, and adopts a number of different ways through which to promote greater understanding and dialogue with all stakeholders. These include the annual general meeting, annual reports and quarterly financial reports, corporate website, and regular announcements in the local media.

A detailed and dedicated section on Corporate Governance is available on the Bank's website at: http://www.vc-bank.com/en/about-us/corporate-governance.html.

INVESTOR COMPLAINTS

The Bank treats investors' feedback, concerns and complaints with a great deal of due care and attention. Their inputs constitute a key element towards improving the Bank's standards, policies, products and services. While keen to provide a first-class service to its clients, the Bank understands that there could be a few incidences where a client might not be fully satisfied with the Bank's products, services or responses. Therefore, investors are encouraged to immediately contact the Bank if at any stage they feel that its service levels are not up to their expectation. The Bank adopts a strict hierarchy and time frame towards resolving investors' complaints swiftly and promptly. A dedicated section on complaint handling procedures is available on the Bank's website at:

http://www.vc-bank.com/en/complaint-handling-procedure.html.

WHISTLE-BLOWING POLICY

The Bank has formulated a whistle-blowing policy designed to enable the airing of genuine concerns regarding suspected malpractice within VCBank, enhancing transparency, and safeguarding the Bank's integrity. The whistle-blowing procedure is embedded in the Human Resources Manual. Malpractice includes, but is not limited to: conduct likely to prejudice the reputation of VCBank; breaches of applicable regulations; breaches of internal rules and limitation; criminal offences or endangerment of the health and safety of any person; environmental damage; and the deliberate concealment of any malpractice. The recommended rule of thumb is "If in doubt – raise it".

GOVERNANCE CONTROL FUNCTIONS

As well as undertaking their specific responsibilities, the Compliance, Risk Management, Internal Audit, and Shari'ah Coordination & Review departments work closely together in assisting the Board and Executive Management of the Bank to uphold the highest standards of corporate governance.

COMPLIANCE

At VCBank, compliance is recognised as the personal responsibility of all staff, not just the Compliance function. Compliance with regulatory requirements and internal policies and procedures is an ongoing process, and considered as an integral part of the Bank's culture.

VCBank is committed to complying fully with the rules and regulations of the Central Bank of Bahrain; the Ministry of Industry, Commerce & Tourism; and other applicable laws and regulations, and international best practices. The Bank continuously strives to improve the level of compliance in conducting its business by actively educating staff to increase awareness of compliance issues and principles.

The Bank's Compliance department acts as a central point for all regulatory compliance, as well as compliance with the Bank's internal policies and procedures. The department is independent from other business activities, and performs its compliance-specific responsibilities along with other limited activities as defined by the CBB, such as Anti-Money Laundering. The Compliance department reports functionally to the Nomination, Remuneration & Corporate Governance Committee and administratively to the CEO, to ensure that the Bank's compliance objectives are achieved to the highest professional and ethical standards. The department performs its activities under a well-established Compliance Framework which is articulated by a comprehensive Compliance Manual approved by the Bank's Board.

VENTURE CAPITAL BANK | Annual Report 2019 - 2020

Corporate Governance Review continued

ANTI-MONEY LAUNDERING

VCBank's Anti-Money Laundering measures are based on three main pillars:

1. The Ethical pillar, by actively taking part in the fight against financial crime.
2. The Professional pillar, by preventing the Bank and its products to be used as a channel for money laundering and terrorist financing by recycling the proceeds of crime.
3. The Legal pillar, by complying with the Kingdom of Bahrain's legislation and regulations pertaining to Anti-Money Laundering (AML) and Combating Terrorist Financing (CTF).

The Bank's AML Manual has been developed in line with Central Bank of Bahrain guidance, and the requirements stipulated in the Financial Crime Module of the CBB Rulebook Volume 2 – Islamic Banks; international best practices promoted by the Financial Action Task Force (FATF), with 40 recommendations on combating money laundering and the financing of terrorism and proliferation; and Basel Committee guidance on Customer Due Diligence.

The manual provides a comprehensive set of AML policies and procedures that set out detailed requirements relating to customer identification, customer due diligence, ongoing due diligence and monitoring, Suspicious Transaction Reporting (STR), combating the financing of terrorism, recordkeeping, and staff AML education and training.

The Bank's compliance with the Anti-Money Laundering regulations is monitored by its Money Laundering Reporting Officer (MLRO) and Deputy MLRO; and independently assessed, both internally and externally, by Internal Audit and the Bank's external auditors on an annual basis

RISK MANAGEMENT

VCBank adopts an enterprise-wide approach to manage risk, whereby it is embedded in the organisational culture, with all employees being individual owners of risks. Risk management plays a critical role in the Bank's decision-making process. The ultimate responsibility for oversight of risk management at the Bank resides with the Board of Directors, which delegates its responsibility to the Board Audit and Risk Committee. The Risk Management department, which is an independent function, reports directly to the Board Audit and Risk Committee, to which it has direct access and administratively to the CEO. The department is responsible for ensuring that the risks inherent in all banking activities are managed in line with the Board-approved risk appetite of VCBank. The department independently identifies measures, and monitors and communicates different dimensions of risk, which aim to protect the asset values and income stream, and optimise shareholders' return.

As part of the Bank's operational risk framework, all functional teams are required to participate in an annual risk and control self-assessment (RCSA) in which they map business processes, and report risks, controls and assessments of risk likelihood and impact, to the Risk Management department. The overall objective of the RCSA is to continuously enhance the quality of all activities undertaken by the functional teams. The internal capital adequacy assessment plan (ICAAP) incorporates a proprietary capital allocation process to ensure that the Bank manages its capital in accordance with international best practices, and meets the standards prescribed by the Central Bank of Bahrain. The Bank uses this model to determine if it has sufficient capital to cover the combination of all balance sheet risks; while maintaining sufficient flexibility to facilitate future growth plans, and protect against periods of prolonged and extreme stress in the Bank's operating environment, execution or performance.

INTERNAL AUDIT

The Internal Audit department reports directly to the Audit and Risk Committee of the Board, and administratively to the Chief Executive Officer. The department is responsible for evaluating and providing assurance to the Board of Directors and Executive Management on the effectiveness of the Bank's control, risk management and governance processes. This involves reviewing the effectiveness and efficiency of all business processes and their compliance with the Bank's policies, standards and procedures, and all applicable laws and regulations. In addition, the department audits the activities of some portfolio companies for which the Bank has a fiduciary responsibility. The department conducts its audits in accordance with the audit plan approved by the Audit and Risk Committee. This plan is developed using a risk-based methodology which also considers any risks identified by the Risk Management function, the Executive Management and external Auditors. Regular reports on Internal Audit activities are presented to the Audit and Risk Committee. The Internal Audit department also provides Management and staff with preventive advice and guidance.

SHARI'AH COORDINATION & REVIEW

The Shari'ah Coordination & Review department reports directly to the Bank's Shari'ah Supervisory Board, and administratively to the CEO. The department adopts a unique continuous review methodology rather than an annual retrospective Shari'ah audit, with all transactions and deals being reviewed, even if there are precedents. The department is proactively involved in the development of new products and investments; follows up on investment project activities such as sub-transactions; and monitors cash management transactions and operations payments on a daily basis. The department plays an important role in communicating all investment activities, structures and documentation of every business plan to the Shari'ah Supervisory Board, in order to ensure that the Bank's activities are in full compliance with the rules and principles of Islamic Shari'ah.

STATUS OF COMPLIANCE WITH CBB'S CORPORATE GOVERNANCE GUIDELINES (HIGH-LEVEL CONTROLS MODULE)

As required by the CBB, VCBank regularly reviews its compliance with the governance requirements stipulated in the CBB's High Level Control Module of its Rulebook Volume 2 – Islamic Banks. The Bank's effort has yielded a high level of compliance with the Eleven Principles of the Corporate Governance Code of the Kingdom of Bahrain, along with its Rules and Guidance. The CBB has embraced the 'Comply or Explain' methodology with regard to its guidance. VCBank is fully compliant with the requirements of the CBB's High Level Control Module except for the following listed below. However, it should be noted that in order to comply with CBB objectives, VCBank implemented alternative internal arrangements as explained below.

GUIDANCE HC- 9.2.4B:

The Corporate Governance Committee shall consist of at least three members, one of whom should be from the Shari'ah Supervisory Board (SSB).

VCBANK'S EXPLANATION:

VCBank established a dedicated Nomination, Remuneration & Corporate Governance Committee (NRCGC), as part of its commitment to promote good governance. While the NRCGC does not include a member from the Shari'ah Supervisory Board (SSB), the Bank believes that spirit of the CBB's guidance can be achieved through an alternative internal arrangement. This entails providing the SSB with an agenda in advance of NRCGC meetings. Based on that, the SSB and the Bank's Shari'ah Reviewer have the full right to attend the Committee meetings. In addition, minutes of meetings will be shared with the SSB for greater transparency.

VENTURE CAPITAL BANK | Annual Report 2019 - 2020

Corporate Governance Review continued

FINANCIAL PENALTIES

During FY 2020, the Central Bank of Bahrain (CBB) imposed the following financial penalties on the Bank in accordance with Section EN-6.2A of the CBB Rulebook - Volume 2 :

Nature of Financial Penalty	Reference	Date submitted to CBB	Amount (BHD)
Delay in publication of final accounts in two daily local newspapers	Article (62) of CBB's Law	18th November 2019	9,800
Delay in appointing an external auditor	Article (61) of CBB's Law	25th November 2019	1,000
Delay in submission of Agreed Upon Procedure on PIRI	BR-3.1.4 CBB Rulebook - Volume 2	19th December 2019	3,400

BOARD AND EXECUTIVE MANAGEMENT REMUNERATION

The Nomination, Remuneration & Corporate Governance Committee (NRCGC) assists the Board in determining the remuneration and compensation of the Board and Executive Management, including executive incentives and any share-based or other entitlements. The members of the NRCGC and their attendances during the year are disclosed in the Annual Report.

The Bank is committed to full compliance with the CBB's requirements covering sound remuneration which are fully reflected in the revised policy and procedures which have been put into effect. The NRCGC reviews VCBank's remuneration policy and procedures on an annual basis.

The remuneration policy is designed to:

- Attract, motivate and retain key employees
- Ensure reward is linked to risks and aligned with long-term performance goals
- Encourage employees to continue to perform and be cost effective

Employee compensation comprises a fixed portion representing salaries and benefits, plus a variable portion based on corporate and individual performance as adjusted for risk. A substantial portion of the variable portion for senior management is deferred over three years and equity linked, and accordingly subject to claw-backs for subsequent changes in financial performance.

Board compensation comprises sitting fees for attendances plus a discretionary annual Board remuneration based on the recommendation of the NRCGC and subject to approval by the AGM. Board remuneration for the year ended 30 June 2020 is disclosed in the table on page 34. The members of the NRCGC received sitting fees of USD 6,000 during the year ended 30 June 2020 (2019: USD 14,000).

Shari'ah Supervisory Board (SSB) compensation comprises a fixed annual fee plus travel and related costs for their services. SSB remuneration for the year ended 30 June 2020 is disclosed in the table on page 34.

Executive Management compensation comprises a mix of fixed and variable remuneration in line with the CBB's requirements on sound remuneration. Fixed compensation comprises salaries and benefits in line with market and industry norms for the levels of expertise and experience, seniority and knowledge concerned. Variable remuneration comprises annual incentives based on the Bank's performance and profitability, plus individual performance and contribution of employees concerned. Due regard is made to align variable remuneration with risk to ensure convergence of employees' interests with shareholders' interests and the long-term profitability of the Bank. In line with best practice, the Bank uses appropriate corporate and individual scorecard measures of returns and risks, and determining the amount and distribution of variable remuneration to employees.

In compliance with the regulations, the CEO and his key deputies, including senior Investment team members are rewarded based on the Bank's performance with due regard to risk taking and exposures and risk outcomes. A significant portion of the variable remuneration is deferred over a period of three years. The deferred portion is 60% for the CEO and his key deputies, and 50% for all other material risk takers or controlled persons whose aggregate annual compensation exceeds BHD 100,000 as required by the CBB. All deferred variable remuneration is awarded in the form of phantom share units linked to the net book value of the Bank's ordinary shares, and accordingly subject to adjustments for subsequent changes in financial performance.

The remuneration policy takes into consideration all key risks that the Bank is exposed to in determining the quantum and distribution of incentives to ensure that remuneration is adjusted for risk taken and aligned with realisation of income. In this regard the NRCGC considers the overall performance for the year by reviewing the performance of the Bank's investment offerings versus target returns, and of the Bank's actual net income achieved versus budgeted, among other factors, to arrive at a corporate performance scorecard. No incentive is payable unless a minimum 70% corporate performance score (or such other minimum as set by the Board) is achieved.

Additionally, the individual performance of each employee based on performance appraisals is taken into consideration in determining the distribution of the incentive pool, thus ensuring that both corporate and individual performance aspects are appropriately considered in the determination and distribution of performance rewards.

The following metrics are used in this regard: actual net income vs. target; exit income vs. target, weighted average IRR achieved on investment projects during period vs. target; capital adequacy ratio, plus individual performance scorecards reflecting their individual performance achievements.

The Bank is committed to full compliance with the CBB's rules which underpins the remuneration policy and requires that compensation is commensurate with risk outcomes and that the compensation of staff in control functions such as Internal Audit, Risk, Compliance and Financial Control is weighted in favour of fixed, with a greater weightage given to variable compensation for staff categorised as material risk takers. Additionally, the incentive of staff in control functions is independent of the performance of business units, subject to an overriding criteria of minimum corporate scorecard achievement. The revised remuneration policy takes into consideration all these aspects and requirements while relating it to the specific circumstances and activities of the Bank. The remuneration policy is subject to annual review to ensure it properly reflects the Bank's business and risk profile from time to time, so that the objective of ensuring that staff are rewarded in line with performance with due regard for risk taken is achieved.

VENTURE CAPITAL BANK | Annual Report 2019 - 2020

Corporate Governance Review continued

SUMMARY OF COMPENSATION FOR THE FISCAL YEAR ENDED 30 JUNE 2020

Particulars	No.	Fixed	Variable*		Total $'000
		Upfront	Upfront	Deferred	
Members of the Board	9	313	-	-	313
Members of Shari'ah Supervisory Board	3	97	-	-	97
Approved persons in business lines	1	718	-	-	718
Approved persons in control & support	10	1,842	-	-	1,842
Other staff	19	979	-	-	979
Total		3,949	-	-	3,949

SUMMARY OF COMPENSATION FOR THE FISCAL YEAR ENDED 30 JUNE 2019

Particulars	No.	Fixed	Variable*		Total $'000
		Upfront	Upfront	Deferred	
Members of the Board	9	355	-	-	355
Members of Shari'ah Supervisory Board	3	85	-	-	85
Approved persons in business lines	3	2,882	-	-	2,882
Approved persons in control & support	8	1,396	-	-	1,396
Other staff	39	2,365	-	-	2,365
Total		7,083	-	-	7,083

* There was no variable remuneration for the year ended 30 June 2019. All upfront amounts applicable are in cash.
* Deferred amounts are converted to phantom units at current book value and paid in cash over 3-year deferral period based on applicable net book value each year.

SUMMARY OF DEFERRED COMPENSATION AS AT 30 JUNE 2020

Deferred awards	No. of units '000	NAV $	Value $'000
Opening balance	117	0.54	96
Awarded during year	-	-	-
Paid during year	-	-	-
Changes in value during year	-	(0.42)	(75)
Closing balance	177	0.12	21

SUMMARY OF DEFERRED COMPENSATION AS AT 30 JUNE 2019

Deferred awards	No. of units '000	NAV $	Value $'000
Opening balance	487	0.87	424
Awarded during year	-	-	-
Paid during year	(310)	0.87	(270)
Changes in value during year	-	(0.33)	(59)
Closing balance	177	0.54	96

Corporate Governance Review continued

BOARD MEMBERS PROFILES

ABDULFATAH MOHAMMED RAFIE MARAFIE
Chairman

State of Kuwait
Independent & Non-Executive Director
Elected 6 October 2016
(He was Deputy Chairman from 6/10/2005 – 5/10/2016)
39 years' experience

VCBank Committees: Chairman of Real Estate Committee; Deputy Chairman of Nomination & Remu-neration & Corporate Governance Committee.

Chairman & General Manager: Mozon Investment Holding Company, Morocco.

Chairman & Chief Executive Officer: Mutajara Real Estate Company, Kuwait.

Chairman: The Commercial Real Estate Company, Kuwait; The Commercial Real Estate Development Company, Bahrain; TOPSU TARIM HAYVANCILIK GIDA SANAYİ VE TİCARET ANONİM ŞİRKETİ (Turkey Farmland).

Vice Chairman: Mohammed Rafie Husain Foundation, Kuwait.

Board Member: Amar Finance and Leasing Company, Kuwait; Hajar Tower Real Estate Company, Kuwait; Al-Jahra Touristic Company, Kuwait; Kuwait; Bayan Realty Company, KSA; Goknur Foods Import Export Trading & Production Company, Turkey.

MARWAN AHMAD AL GHURAIR
Deputy Chairman

United Arab Emirates
Independent and Non-Executive Director
Elected 6 October 2005
29 years' experience

VCBank Committees: Chairman of Audit and Risk Committee; Member of Nomination, Remuneration & Corporate Governance Committee.

Chairman: Fanan Investments, Dubai; Semakan Holdings, Dubai; Dubai National School.

Board Member: Jordan Al Abyad Fertilizers and Chemicals Company (JAFCCO).

ADWAN MOHAMMAD ALADWANI
Board Member

State of Kuwait
Non-Independent and Non-Executive Director
Elected 8 December 2015
44 years' experience

VCBank Committees: Member of Audit and Risk Committee; Member of Exit Committee.

Chairman & Chief Executive Officer: Al Salmiya Group for Enterprise Development Company, Kuwait.

Chairman: Kuwait Resorts Company, Kuwait;

Vice Chairman: The Commercial Real Estate Company, Kuwait; Bayan Realty Company, KSA; The Commercial Real Estate Development Company, Bahrain.

Board Member: TOPSU TARIM HAYVANCILIK GIDA SANAYİ VE TİCARET ANONİM ŞİRKETİ (Turkey Farmland); Mozon Investment Holding Company, Morocco; Vacation Club Venture BV, Dubai – UAE.

MOHAMMED ABDULRAZZAQ ALKANDARI
Board Member

State of Kuwait
Non-Independent and Non-Executive Director
Elected 25 April 2012
19 years' experience

VCBank Committees: Deputy Chairman of Exit Committee, Member of Real Estate Committee.

Executive Vice President - Investment: Securities Group, Kuwait.

Deputy Chairman: Gulf Energy Holdings, Kuwait; Kuwait Saudi Pharmaceutical Industries, Kuwait.

Board Member: Ajial Real Estate & Entertainment Company, Kuwait; First Investment Company, Kuwait; Technology Industrial Gases Production Company, Kuwait; EYAS for Higher & Technical Education Company, Kuwait.

VENTURE CAPITAL BANK | Annual Report 2019 - 2020

Corporate Governance Review continued

DR. MOHAMMED AHMED JUMAAN
Board Member

Kingdom of Bahrain
Independent and Non-Executive Director
Elected 24 January 2016
37 years' experience

VCBank Committees: Deputy Chairman of Audit and Risk Committee; Member of Real Estate Committee.

Board Member: Royal University for Women, Bahrain; TIG Software, Bahrain; Mena Aerospace Enterprises, Bahrain; Pan Arabian Gourmet; The Malls Real Estate Development Company, Bahrain.

Fellow Member: Royal Aeronautical Society (FRAeS); British Computer Society (FBCS).

Senior Member: Institute of Electrical and Electronics Engineering.

Chartered Professional Engineer

Previous: Member of the Board Directors of Eskan Bank, Bahrain Development Bank, Olive VFM Company B.S.C.

ADEL MOHAMMED ABUNAYYAN
Board Member

Kingdom of Saudi Arabia
Independent and Non-Executive Director
Elected 24 October 2018
24 years' experience

VCBank Committees: Member of Risk Committee, Member of Real Estate Committee.

Board Member: Mohammad Rashed Abu Nayyan Trading & Investment Co. Ltd, General Director & Chairman of the Real Estate and Investment Committee of the company; Delta Company Limited

Representative of Mohammad Rashed Abunyyan Trading and Investment Company in:-
- Union Salihia Closed Joint Stock Company
- Member of the Board of Directors of Phoenix Medical Hospitals Group - London.

DR. ABDULAZIZ FAHAD AL DAKHEEL
Board Member

Kingdom of Saudi Arabia
Independent and Non-Executive Director
Elected 24 February 2020
32 years' experience

VCBank Committees: Member of Nomination, Remuneration & Corporate Governance Committee and Member of the Steering Committee

Co-Founder: Venture Capital Bank

Owner: Abdulaziz Fahad Al Dakheel (AFD) Consulting, Saudi Arabia

Board Member & Partner: Takreerat Oil Recycling & Blending Company, Saudi Arabia; Albaz Industrial Corporation, Saudi Arabia

Previous Board Memberships: Adeem Capital Investment Bank, Saudi Arabia; Tabuk Agricultural Company, Saudi Arabia; Reef Holding Company, Bahrain; Inovest, Bahrain; Ibdar Bank, Bahrain

FAHAD SAAD ALMOAMMAR
Board Member

Kingdom of Saudi Arabia
Independent and Non-Executive Director
23 years' experience

VCBank Committees: Deputy Chairman of Nomination, Remuneration & Corporate Governance Committee

Senior Vice President - Tawuniya Insurance Company, Saudi Arabia

Previous Executive Positions: Executive Vice President - Head of Asset Management: Manafea Holding Company, Saudi Arabia; Chief Investment Officer: Tadawul, Saudi Arabia; Treasurer (KSA): Emirates Bank International, Saudi Arabia; Assistant Vice President - Head of Islamic Treasury: Riyad Bank, Saudi Arabia

Corporate Governance Review continued

EXECUTIVE MANAGEMENT PROFILES

ROBERT C. WAGES

Acting Chief Executive Officer and Head of Investments & Post-Acquisition

Chairman of Executive Management Committee
Joined VCBank in March 2017
35 years' experience

Robert Wages has extensive global experience in sourcing, executing and managing institutional direct private equity investments across multiple industry sectors, spanning the US, Europe, MENA and Asia. Joining VCBank in March 2017 as Head of Post-Acquisition, he took on an additional role as Head of Investments in July 2019, and was appointed Acting CEO in April 2020. Prior to this, Robert was Managing Director of US-based Gazelle Capital Investors, a consulting firm advising family investment offices. Before this, he was Head of Private Equity with Emirates International Investment Company, the proprietary investment arm of National Holding, Abu Dhabi, UAE; and Executive Director, Private Equity at the government-owned Abu Dhabi Investment Company (Invest AD). Previously, he spent 17 years with Castle Harlan, a leading New York-based middle market buyout firm, where he rose from an Associate to Managing Director. Robert holds a Master's degree in Computational Finance & Risk Management from the University of Washington, USA; and a Bachelor's degree in Chemistry from Princeton University, USA. He is a Chartered Financial Analyst, Chartered Alternative Investment Analyst, and Financial Risk Manager.

NASIR MAQSOOD

Acting Deputy Chief Executive Officer and Chief Financial Officer

Deputy Chairman of Executive Management Committee
Joined VCBank in November 2019
21 years' experience

Nasir Maqsood has an impressive track record in global financial services gained from working with leading multinational institutions in public practice and banking, across North America and the Middle East. His experience covers auditing and accounting; retail, commercial and investment banking (both Islamic and conventional); private equity and asset management; M&A and capital markets; and regulatory reporting. Nasir joined VCBank in November 2019 as Chief Financial Officer, and was appointed Acting Deputy CEO in April 2020. Prior to this, he was Chief Financial Officer at HSBC Bank - Bahrain, and CFO of Commercial Banking at HSBC Bank - Canada. Previously, Nasir worked with Ernst & Young - Canada, where he provided auditing and business advisory services; and with Ernst & Young - Bahrain, where he managed the development of a new Regulatory Capital Framework for Islamic Banks, the first of its kind globally. Nasir holds a Master's degree in Business Administration from the Hayworth College of Business, Western Michigan University, USA; and a Bachelor's degree in Business Administration from Southern Arkansas University, USA. He is an Associate Chartered Accountant from the Institute of Chartered Accountants in England & Wales.

AHMED HASAN ALABBASI

Director - Investments

Joined VCBank in 2006
19 years' experience

Ahmed Alabbasi is a well-seasoned investment professional with sound experience in private equity, real estate and financial advisory. He has developed particular expertise in deal origination, structuring and engineering; acquisition and turnaround strategy; and post-acquisition monitoring and exit planning. Prior to joining VCBank, he was Group Head of Strategic and Direct investments at Bahrain National Holding. Ahmed is a Certified Financial Risk Manager (FRM) and a fellow member of the Global Association of Risk Professionals, (GARP), USA. He holds a Master's degree in Finance & Investments from the University of Exeter, UK; and a Bachelor's degree in Business Management from the University of Bahrain.

MAHMOOD MOHAMMED ZAINAL

Director - Investments

Joined VCBank in 2008
17 years' experience

Mahmood Zainal has extensive experience in investment banking across the Middle East. His specialist expertise includes deal origination, valuations and modelling, post-investment management and due diligence, with a particular focus on real estate and private equity. Prior to joining VCBank, he spent five years with Kuwait Finance House - Bahrain, where he worked in Investments, Retail Banking and Customer Service; having started his career with American Express, Bahrain. Mahmood holds a Bachelor of Commerce degree from the John Molson School of Business at Concordia University, Montreal, Canada. He has also attended the Leadership Grooming Program conducted by the Ivey Business School, University of Western Ontario, Canada.

VENTURE CAPITAL BANK | Annual Report 2019 - 2020

Corporate Governance Review continued

ASYA HASAN
Director - Head of Internal Audit

Member of the Executive Management Committee
Joined VCBank in 2015
21 years' experience

Asya Hasan has extensive experience in the field of audit and accounting professional practices. She has specialist expertise in attest of sovereign lending, and conducting financial safeguard assurance of central banks borrowing from international financial institutions and monetary funds to finance governments' fiscal deficits and support balance of payments. Before joining VCBank, she was a senior member of the Finance Department at the Arab Monetary Fund (AMF), where she was in charge of lending to member states of the Fund. Prior to this, Asya was a staff member of the International Monetary Fund (IMF), where she was responsible for conducting financial safeguards assessment of central banks of IMF borrowing members. Before joining international financial institutions, she was a Senior Audit Manager with Ahli United Bank, a Senior Bank Examiner at the Central Bank of Bahrain, and a Senior Auditor in the Financial Services Industry division of Ernst & Young. Asya is a Licenced Certified Public Accountant (CPA) by the California Board of Accountancy; and holds an MBA with a concentration in Finance from DePaul University Business School, Chicago, USA; and a BSc degree in Accountancy from the University of Bahrain.

REHAN ZULQADAR
Director - Head of Risk Management

Member of Executive Management Committee
Joined VCBank in 2020
Over 20 years' experience

Rehan Zulqadar has specialist experience in risk management, compliance, internal audit and consultancy, gained with Big Four auditing firms and financial institutions across the Middle East and Asia. Prior to joining VCBank, he held senior management positions in the Kingdom of Bahrain, including Head of Risk Management & Deputy MLRO at International Investment Bank; Head of Risk, Compliance & MLRO at Investrade Company; Head of Risk Management at Reef Real Estate Finance Company; and Head of Risk Management at Ibdar Bank. Previously, he was a member of the Financial Services Risk Management Group at the Bahrain office of Ernst & Young. Rehan is an Associate of the Professional Risk Managers' International Association, USA; and holds an International Certificate in Banking & Risk Regulation (Basel II) from the Global Association of Risk Professionals, USA (GARP). He is also a Certified Anti-Money Laundering Specialist, Certified Basel iii Professional, Certified Operational Risk Manager, and Certified Financial Advice Programmer. Rehan holds a Bachelor of Commerce degree from the University of Punjab, Lahore, Pakistan.

JEHAD HASAN QAMBER
Director - Head of Human Resources & Support

Member of the Executive Management Committee
Joined VCBank in 2005
31 years' experience

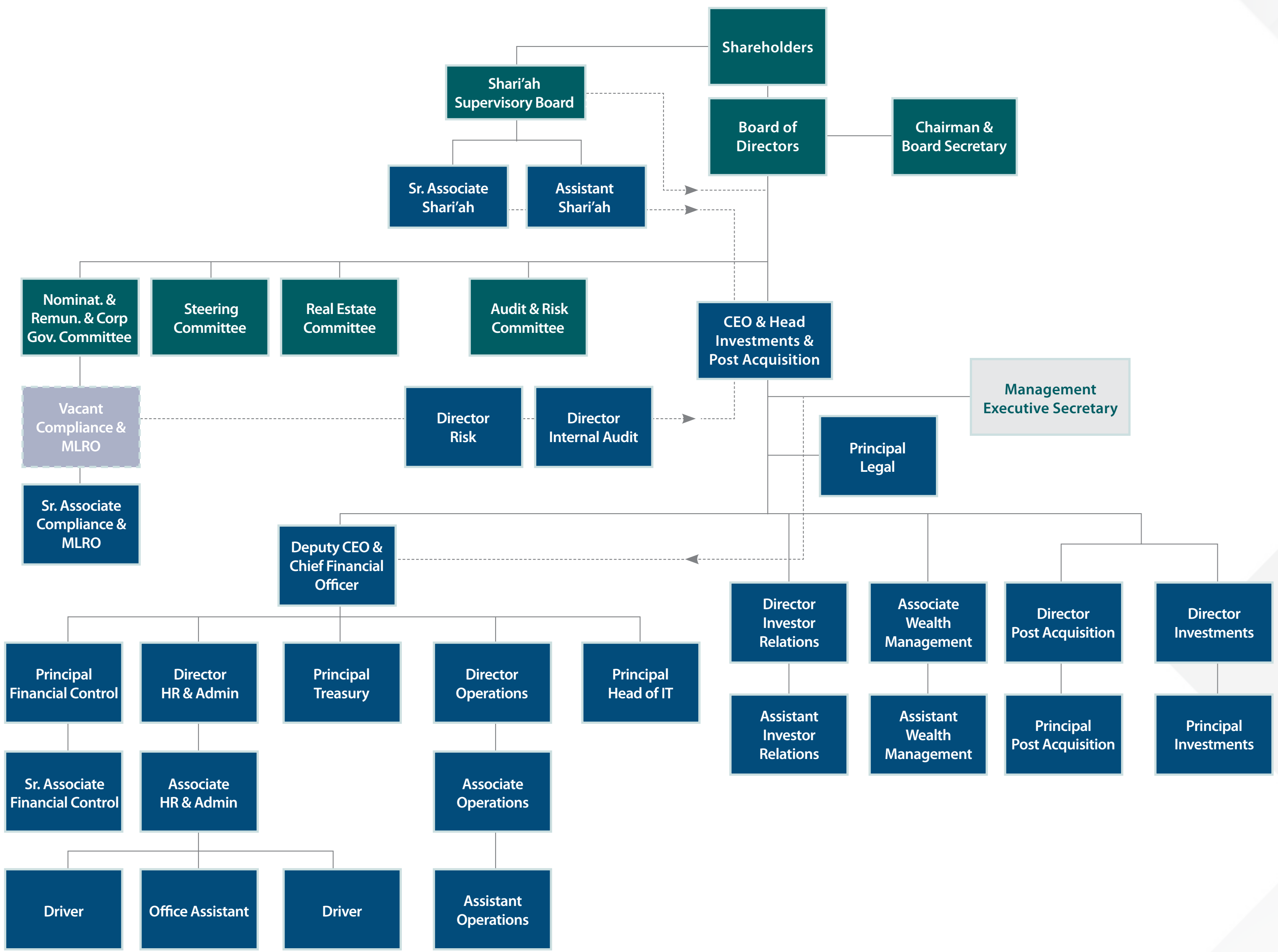
Jehad Qamber has extensive experience in the areas of Human Resources, Finance and Investment Banking. Before assuming his current position in 2016, he was a Director in the Bank's Wealth Management Division. Prior to joining VCBank, he was Director of HR & Finance with the General Organisation for Youth & Sport (GOYS) of the Kingdom of Bahrain, where he also served as Acting Director of the Technical Affairs Directorate. Previously, he was Head of Quality Assurance at the Kingdom's Civil Service Bureau. Jehad holds a Master's degree in Business Administration from the University of Glamorgan, Wales, UK.

SAHAR JAFAAR KHUNJI
Director - Head of Investor Relations

Member of the Executive Management Committee
Joined VCBank in 2007
13 years' experience

Sahar Khunji joined VCBank 13 years ago in the Bank's Operations & Support division, where she was involved in various investor relations, human resources and corporate communications activities. In 2017, she was promoted to Director - Head of Investor Relations, reporting directly to the Chief Executive Officer. A key role of this standalone function is to provide clients and shareholders with up-to-date information about the Bank's investment portfolio, and new investor-related regulatory requirements. In 2019, Sahar also assumed responsibility for Corporate Communications, which covers all stakeholder communications, marketing and research. She has initiated several projects, including a revamp of the Bank's website, development of a new Investor Portal, and enhanced use of social media channels. She also provides regular reports to the Executive Management with research insights on latest market trends and developments. Sahar is an Associate of the Chartered Institute of Personnel & Development (CIPD), UK; and holds a Bachelor's degree in Business (Economics & Finance) from Central Queensland University, Australia.

Governance & Organisation Structure



Current Staff Count = **30**
Vacant Positions = **1**

The Bank's independent governance control functions assist the Board of Directors and Executive Management in upholding the highest standards of regulatory compliance and industry best practice.

Contents

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

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

Venture Capital Bank, P.O. Box 11755, Manama, Kingdom of Bahrain
T +973 17 518 888 • F +973 17 51 8880 • E info@vc-bank.com • www.vc-bank.com
Licensed as an Islamic Wholesale Bank by the CBB.

Report of the Auditors

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.

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 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

VENTURE CAPITAL BANK | Annual Report 2019 - 2020

Consolidated Statement of Cash Flow

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

Corporate Overview
Business Overview
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

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

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

	2020 USD '000	2019 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.

Notes to the Consolidated Financial Statements

As at 30 June 2020

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:

VENTURE CAPITAL BANK | Annual Report 2019 - 2020

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

As at 30 June 2020

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:

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

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

Notes to the Consolidated Financial Statements

As at 30 June 2020

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

Notes to the Consolidated Financial Statements

As at 30 June 2020

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

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

As at 30 June 2020

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)

Notes to the Consolidated Financial Statements

As at 30 June 2020

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

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

As at 30 June 2020

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)

Notes to the Consolidated Financial Statements

As at 30 June 2020

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).

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

As at 30 June 2020

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**

Notes to the Consolidated Financial Statements

As at 30 June 2020

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

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

VENTURE CAPITAL BANK | Annual Report 2019 - 2020

Notes to the Consolidated Financial Statements

As at 30 June 2020

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**

Notes to the Consolidated Financial Statements

As at 30 June 2020

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

VENTURE CAPITAL BANK | Annual Report 2019 - 2020

Notes to the Consolidated Financial Statements

As at 30 June 2020

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**

Notes to the Consolidated Financial Statements

As at 30 June 2020

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*	*Tot USD '0(*
Assets								
Balances and placements with banks	-	10,175	-	-	-	-	-	10,17
Investments	7,891	8,814	38,809	2,572	1,688	-	51,208	110,98
Investment in associates and joint venture accounted under the equity method	-	-	21,304	-	-	-	1,397	22,70
Murabaha financing to investee companies	-	-	982	-	-	29,424	-	30,40
Wakala contract receivable	-	10,672	-	-	-	-	-	10,67
Receivables	-	-	159	-	-	-	1,817	1,97
Funding to project companies	-	659	4,211	-	-	-	823	5,69
Other assets	5,414	29	793	-	3	-	20,439	26,67
Property and equipment	-	-	7,099	-	-	-	381	7,48
Total assets	13,305	30,349	73,357	2,572	1,691	29,424	76,065	226,76
Liabilities								
Islamic financing payable	-	38,215	-	-	-	-	71,477	109,69
Employee accruals	-	-	-	-	-	-	1,440	1,44
Other liabilities	-	-	-	-	-	-	13,145	13,14
Total liabilities	-	38,215	-	-	-	-	86,062	124,27
Commitments and contingencies	25,138	10,000	318	975	-	-	3,009	39,44
Equity of investment account holders	-	1,563	-	-	-	-	324	1,88

VENTURE CAPITAL BANK | Annual Report 2019 - 2020

Notes to the Consolidated Financial Statements

As at 30 June 2020

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**

Notes to the Consolidated Financial Statements

As at 30 June 2020

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

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

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.

VENTURE CAPITAL BANK | Annual Report 2019 - 2020

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

As at 30 June 2020

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

VENTURE CAPITAL BANK | Annual Report 2019 - 2020

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

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

Corporate Overview
Business Overview
Financial Statements

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Notes to the Consolidated Financial Statements

As at 30 June 2020

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

Notes to the Consolidated Financial Statements

As at 30 June 2020

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.

Additional Public Disclosures

CONTENTS

Additional Public Disclosures

30 June 2020

1 Introduction

These disclosures have been prepared in accordance with the Central Bank of Bahrain's (CBB) requirements outlined in the Public Disclosure Module ("PD"), Chapter 1.3 of the CBB Rule Book, Volume II for Islamic Banks. These disclosures follow the requirements of Basel III and the Islamic Financial Services Board's (IFSB) recommended disclosures for Islamic banks, and should be read in conjunction with the disclosures made in the Bank's consolidated financial statements for the year ended 30 June 2020.

These disclosures, also referred to as "Pillar 3" disclosures are designed to promote market discipline and transparency by providing information on a firm's risk exposures and risk management processes. The Bank makes these disclosures on a comprehensive basis comprising qualitative and quantitative information annually and on a restricted basis at the half year reporting stage.

The Bank has adopted the Standardised Approach for Credit Risk and Market Risk and follows the Basic Indicator Approach for Operational Risk to determine its capital requirements.

As at 30 June 2020, the Bank's total risk weighted assets amounted to US$ 913.1 million; Common Equity, Tier 1 Capital and total regulatory capital amounted to US$ 22.1 million, US$ 22.1 million and US$ 26.4 million respectively. Accordingly, Common Equity Ratio, Tier 1 Capital Adequacy Ratio and total Capital Adequacy Ratio was 2.42%, 2.42% and 2.89% respectively, 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.

2 Capital Structure

2.1 Capital Base
The authorized share capital of the Bank is US$ 500 million, comprising 500 million common shares of US$ 1 each. The Bank's current paid up capital is US$ 190 million held by 174 shareholders from countries in the Gulf Cooperation Council ("GCC").

2.2 Group structure:
The Bank has the following operational subsidiaries, together ("the Group") which are fully consolidated in its consolidated financial statements.

Subsidiary	***Country***	***Capital***	***Percentage interest***
Gulf Projects Company W.L.L	Kingdom of Bahrain	BHD 1,000,000	100%
The Lounge Serviced Offices Co. W.L.L	Kingdom of Bahrain	BHD 20,000	100%
GMCB Co. W.L.L*	Kingdom of Bahrain	BHD 20,000	50.59%
Venture Foods S.P.C*	Kingdom of Bahrain	BHD 1,000	50.77%

* These equity investments are not consolidated on a line-by-line basis, rather designated as held for sale investments in accordance to FAS 23 with a carrying value of US$ 10,411 thousand as at 30 June 2020.

VENTURE CAPITAL BANK | Annual Report 2019 - 2020

Additional Public Disclosures

30 June 2020

2 Capital Structure (continued)

2.3 Review of financial performance:
The Bank's performance in the past three to four years has been negatively impacted by significant impairment provisions and fair value losses totalling US$ 74.4 million in June 2020, US$ 51.0 million in June 2019, US$ 5.3 million in June 2018 and US$ 43.4 million in June 2017 that were recorded based on investment valuations and impairment assessments. In line with the Bank's consistent policy, these assessments take into consideration all relevant factors including the geopolitical and economic circumstances in the region and the challenging investment climate in Turkey. Notwithstanding, the Board and management have put in place a clear plan to tackle the challenges with a concerted effort to revive and achieve exits of its legacy assets combined with value addition from new yielding deals and costs reductions to enable the Bank to return to profitability.

	June 2020	***June 2019***	***June 2018***	***June 2017***	***June 2016***	***June 2015***
Net profit (US$ m)	(80.26)	(58.18)	(5.25)	(53.65)	9.28	14.06
ROC (return on paid up capital)	-42.2%	-30.6%	-2.8%	-28.2%	4.9%	7.8%
Head count	32	39	45	51	50	49
Total investments / total assets	75%	59%	61%	67%	65%	76%
Leverage (total liabilities / total equity)	449.4%	121.3%	76.6%	65.8%	49.0%	14.4%
Retained earnings / paid up capital	-91%	-49%	-16%	-13%	15%	19%

Additional Public Disclosures

30 June 2020

2 Capital Structure (continued)

Capital Adequacy

2.4 The Bank's capital adequacy management program ensures that the Bank not only complies with regulatory capital requirements, but also continues to maintain a strong capital base to support its business.

2.5 The Bank utilises a risk adjusted measure of capital adequacy (i.e. Capital Adequacy Ratio or "CAR") based on the regulatory regime implemented by the CBB that is consistent with the Basel III guidelines issued by the Basel Committee on Banking Supervision's International Convergence of Capital Measurement and Capital Standards.

2.6 Effective January 2015, the CBB has required all Bahrain banking institutions to implement the Basel III guidelines for the maintenance of minimum level of capital calculated for three major components of risk exposures i.e. credit risk (including investment risks), operational risk and market risk, plus minimum leverage and liquidity coverage ratios.

2.7 The Bank uses the Standardised Approach to quantify its credit and market risk weighted exposures and the Basic Indicator Approach for operational risk.

a. Credit risk weighted exposures may be calculated in three different methods of varying degrees of sophistication, namely the Standardized Approach, Foundation Internal Rating Based Approach and Advanced Internal Rating Based Approach. The Bank has adopted the Standardized Approach for credit risk measurement, which uses fixed risk weights for different categories of credit risk.

b. Market risk weighted exposures may be quantified using the Standardized Approach, which uses fixed capital charges for specific categories of market risk, or the Internal Models Approach subject to prior approval by CBB. The Bank uses the Standardized Approach for market risk measurement.

c. For operational risk, there are three different approaches - Basic Indicator Approach, Standardized Approach, and Advanced Measurement Approach. The Bank uses the Basic Indicator Approach, which uses the average of the gross income for the past three years as a basis for the calculation of capital charge for operational risk.

2.8 In determining CAR, the Bank calculates its risk adjusted assets, which are then expressed as a factor of regulatory eligible capital rather than the equity capital appearing in the Bank's statement of financial position. Regulatory capital is composed of three elements:

a. Common Equity Tier 1 Capital which is the nominal value of paid in capital, audited retained earnings and accumulated reserves arising from the appropriation of current and past years' income and/or retained earnings less treasury stock, minority interests and negative fair value reserves. Local regulations also require that certain investments or exposures should be deducted from Tier 1 capital.

b. Additional Tier 1 Capital, which consists of the qualifying portion of minority interests in consolidated entities given recognition.

c. Tier 2 Capital, which consists of the qualifying portion of subordinated loans (nil in VCB's case) and general loss provisions. Under the CBB regulations, the aggregate amount of Tier 2 capital eligible for inclusion in the CAR is limited to no more than 100% of Tier 1 Capital.

2.9 As the Bank has no operating branches outside the Kingdom of Bahrain, it is subject only to the capital requirements of the CBB, which currently requires all financial institutions in Bahrain to maintain a 12.5% minimum CAR.

2.10 The Bank's capital adequacy position is reviewed and stress tested regularly for various scenarios given the nature of the Bank's investments in alternative assets. Prudential Returns on the Bank's capital adequacy are filed quarterly with the CBB and reviewed by the external auditors.

2.11 During the year ended 30 June 2020, the Bank's capital adequacy position went below the minimum requirement of the CBB. Accordingly, the Bank provided the CBB with an action plan to bring the CAR back above the minimum. In addition daily CAR monitoring process has been put in place.

2.12 As a further step in mitigating risks, the Bank follows a policy of diversification in its activities and seeks to minimize the risk exposure to particular geographical regions, counterparties, instruments and types of business.

Additional Public Disclosures

30 June 2020

2 Capital Structure (continued)

2.13 Capital Adequacy (continued)

The quantitative details of the Bank's regulatory capital are depicted in the following tables:

Table 1: Regulatory Eligible Capital as at 30 June 2020

CAPITAL COMPONENTS - CONSOLIDATED			USD '000
	CET 1	***AT1***	***T2***
Tier 1 Capital			
Common Equity Tier 1 (CET1)			
Issued and fully paid ordinary shares	190,000		
Legal / statutory reserves	5,859		
Accumulated losses	(93,301)		
Current interim cumulative net income / losses	(80,260)		
All other reserves	(167)		
Total CET1 capital before minority interest	**22,130**		
Total Common Equity Tier 1 capital	**22,130**		
Other Capital (AT1 & T 2)			
Expected Credit Losses (ECL) Stages 1 & 2		-	4,265
Total Available AT1 & T2 Capital		**-**	**4,265**
Net Available Capital	**22,130**	**-**	**4,265**
Total Tier 1		**22,130**	
Total Available Capital			**26,395**

Reconciliation with reviewed interim condensed consolidated financial statements:		
Shareholder's equity per reviewed interim condensed consolidated financial satements		**22,130**
Add:	Collective impairment provisions	4,265
Total available capital for regulatory purposes		**26,395**

Additional Public Disclosures

30 June 2020

2 Capital Structure (continued)

2.13 Capital Adequacy (continued)

Table 2: Details of exposures and capital requirement

Details of exposures and capital requirement			USD '000
Credit risk:	*Gross exposures*	*Risk weighted exposures*	*Capital charge*
Total Claims on Banks	507	127	15
Other Corporates Including Category 3 Investment Firms - (net of CRM)	10,248	10,248	1,230
Equity Investments			
Investments in listed equities in banking book	1,178	1,178	141
Investments in unlisted equities in banking book	16,061	24,092	2,891
Significant investment in the common shares of financial entities >10%	808	2,020	242
Significant investment in the common shares of Commercial Entities above 15%, 60%	8,571	68,569	8,228
Other exposures with excess of large exposure limits (Module CM)	84,762	678,097	81,372
Premises occupied by the bank	4,570	4,570	548
Holding of Real Estate - Others	24,478	48,956	5,875
Investment in unlisted real estate companies	10,717	42,870	5,144
Other exposures	10,462	10,462	1,255
Total credit risk exposure under standardized approach	**172,363**	**891,190**	**106,943**
Market risk:			
Trading equities position	1,178	2,356	283
Foreign exchange position	10,365	10,365	1,244
Total market risk under standardized approach	**11,543**	**12,721**	**1,527**
Operational risk under Basic Indicator Approach (ref. below)		**9,178**	**1,101**
Total		**913,089**	**109,571**
Total eligible capital - (Tier 1 + Tier 2)		**26,395**	
Total eligible capital - Tier 1		**22,130**	
Common Equity Tier 1		**22,130**	
Total Capital Adequacy Ratio (Tier 1 + Tier 2)		**2.89%**	
Tier 1 Capital Adequacy Ratio		**2.42%**	
Common Equity Tier 1 Ratio		**2.42%**	

Capital requirement for Operational Risk (Basic Indicator Approach)

	2019	*2018*	*2017*
			USD '000
Gross income for prior three years	(26,126)	4,895	(31,583)
Average of past 3 years gross income (excl. loss years)	4,895		
Capital requirement for Operational Risk (15%)	734		
Risk weighted exposure for Operational Risk	**9,178**		

Total losses on investments:	*Year ended 30 Jun 2020*	*Year ended 30 Jun 2019*
	USD '000	USD '000
Unrealised fair value losses recognized in the statement of income	(31,004)	(35,069)
Unrealised fair value gains recognized in equity during the year	(96)	-
Realised gains arising from sales during the year	781	1,133

Additional Public Disclosures

30 June 2020

2 Capital Structure (continued)

2.13 Capital Adequacy (continued)

The maximum and minimum values of each category of market risk exposure each quarter during the period are detailed in the table below:

Table 3 – Details of market risk weighted exposures *USD '000*

Particulars	*30-Jun-20*	*31-Dec-19*	*30-Sep-19*	*30-Jun-19*	*31-Mar-19*	*31-Dec-18*	*30-Sep-18*	*30-Jun-18*	*31-Mar-18*	*Maximum*	*Minimum*
Market risk exposures											
Listed equities held for trading	1,178	3,218	4,177	4,090	4,165	4,362	4,145	3,951	4,649	4,649	1,178
Foreign currency exposure*	10,365	12,923	18,028	18,124	18,175	18,209	19,108	16,238	16,144	19,108	10,365
Market risk charge											
Listed equities held for trading	188	515	668	654	666	698	663	632	744	744	188
Foreign currency exposure	829	1,034	1,442	1,450	1,454	1,457	1,529	1,299	1,292	1,529	829
Total market risk charge	1,018	1,549	2,111	2,104	2,120	2,155	2,192	1,931	2,035	2,192	1,018
Market risk weighted exposure											
Listed equities held for trading	2,356	6,437	8,354	8,181	8,330	8,724	8,289	7,901	9,299	9,299	2,356
Foreign currency exposure	10,365	12,923	18,028	18,124	18,175	18,209	19,108	16,238	16,144	19,108	10,365
Total market risk weighted exposure	**12,721**	**19,360**	**26,382**	**26,305**	**26,505**	**26,933**	**27,397**	**24,139**	**25,443**	**27,397**	**12,721**

Table 4 – Details of credit risk weight on Islamic financing contracts at 30 June 2020, which is representative of the average exposure during the year:

		USD '000
Asset Categories for Credit Risk	*Credit Exposure*	*Credit Risk Weighted Assets*
Commodity murabaha to projects	1,042	2,084
Profit free funding to projects	4,347	4,347
Total Islamic Financing Contracts	**5,389**	**6,431**

Additional Public Disclosures

30 June 2020

3 Risk Management

Risk Governance Structure

3.1 As an Islamic investment bank dealing predominantly in alternative assets, the Bank is exposed to various risks in the normal course of its business. These risks include:

a. Credit and counterparty credit risk
b. Market risk
c. Operational risk
d. Equity risk in the Banking Book (Investment Risk)
e. Liquidity risk
f. Profit margin rate risk in the Banking Book
g. Displaced Commercial Risk (DCR)

3.2 An understanding of and transparency in risk-taking are key elements in the Bank's business strategy. The Bank maintains a prudent and disciplined approach towards risk taking, and embeds a structured risk management process as an integral part of its decision making practice. This risk management process, which is applicable to the various risks the Bank is exposed to, is divided into three key components comprising the following:

a. Risk Identification and Measurement
   i. Procedures for the identification and quantification of risks
   ii. The use of quantitative models and qualitative approaches to assess and manage risks
b. Risk Control
   i. Clearly defined risk exposure limits
   ii. Criteria for risk acceptance based on risk and return as well as other factors
   iii. Portfolio diversification and, where possible, other risk mitigation techniques
   iv. Robust operating policies and procedures
   v. Appropriate Board Committee's authorization and approval for investment transactions
c. Risk Monitoring and Reporting
   i. Ongoing review of exposures and risks by Risk Management Department, including stress testing and frequent reporting to the Board
   ii. Periodic internal audits of the Bank's control environment

3.3 The Bank's Board of Directors through its Risk Committee (a subcommittee of the Board of Directors) has the responsibility for ensuring the establishment and effective implementation of an integrated risk management framework for the Bank. Further, the Risk Management Department which reports to the Board Risk Committee is empowered to independently identify and assess risks that may arise from the Bank's investing and operating activities; and recommend to the Executive Management Committee any prevention and mitigation measures as it deems fit. In addition, the Internal Audit Department, which is independent of both operations and the Bank's investments units, also assists in the risk management process. In particular, the Internal Audit Department is charged with a periodic review of the effectiveness of the Bank's policies and internal controls, including those relating to the risk management process.

Additional Public Disclosures

30 June 2020

3 Risk Management (continued)

3.4 The Internal Audit Department adopts a risk-based audit approach whereby the nature, timing and extent of the audits are determined with regard to the risk relevant to each business or support unit of the Bank. A risk assessment is carried out annually to determine the major risks faced by each business or support unit and accordingly, an annual audit plan is prepared by the Internal Audit Department and approved by the Board's Audit Committee. The annual plan envisages the coverage, amongst others, of the Risk Management and Compliance Departments.

Detailed operational risk assessments and tests of effectiveness of internal controls designed to mitigate risks (covering each of the risk components as mentioned above) are carried out in accordance with the annual audit plan. A follow up audit to ascertain the status of implementation of observations previously made by internal or external audit is also part of the annual audit plan.

The key findings arising from the work performed by Internal Audit is reported to the Board Audit Committee and senior management of the Bank.

Credit and Counterparty Credit Risk Management (PD 1.3.22 + 1.3.26)

3.5 Credit risk is defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms.

3.6 The Bank is not involved in the granting of credit facilities in the normal course of its business activities. Further, the Bank is not engaged in retail business and therefore does not use credit "scoring" models.

3.7 The credit risk exposures faced by the Bank are principally in respect of its own short term placements with other financial institutions and in respect of investment related funding made to projects. The investment related funding exposures arise in the ordinary course of its investment banking activities. All such exposures are however reviewed periodically for recoverability in line with FAS 30 and are subject to provisioning where necessary having regard to the nature of the exposure and the assessment of collection.

3.8 The Bank uses the Standardized Approach for measuring its credit risk. As it does not use an internal credit "scoring" system, the Bank depends, where available, on ratings from External Credit Assessment Institutions recognized by the CBB for its bank counterparty exposures. As at 30 June 2020 bank balances totalling US$ 30 thousand were rated as "ECAI 4 (BB+ to B-)" based on ratings issued by Moody's - resulting in a risk weight of 100%.

3.9 All lines of counterparty credit limits are subject to annual reaffirmation by the Board of Directors. The limits are also reviewed frequently to ensure consistency with the Bank's investment strategies and to take into account the latest market developments. Given the nature of the Bank's business, the Bank uses nominal balance sheet amounts including accrued interest and other receivables as its measure of exposure. Overall, the Bank's management considers that its policies and procedures constitute a reasonable approach to managing the credit risk in the activities it is engaged in.

Additional Public Disclosures

30 June 2020

3 **Risk Management (continued)**

Securitisation

3.10 The Bank does not generally undertake or participate in securitization activities in relation to credit synthesis, acting as a sponsor, liquidity facility provider, credit enhancement facility provider, swap provider nor have any of its assets securitized and therefore has no recourse obligations under such transactions as defined by the Financial Stability Task Force.
However, the Bank has structured and arranged certain "Liquidity Programs" which has raised funds through the issuance of Shari'ah compliant one year liquidity instruments with early redemption options of 30 days, 90 days and 180 days with attractive yields. These are backed by the rental yields of the VC Bank Building, a prime commercial property in the Diplomatic Area of the Kingdom of Bahrain, and of the Jebel Ali Labour Housing Complex in Jebel Ali, United Arab Emirates.

Off-Balance Sheet Items

3.11 The Bank's off-balance sheet items comprise:

a. Contingent exposure of US$ 30.86 million (30 June 2019: US$ 29.01 million) associated with the issuance of guarantees for investment related funding made by financial institutions to the Bank's investment projects. Since these may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements;

b. Commitments to finance and invest of US$ 14.97 million (30 June 2019: US$ 10.49 million; and

c. Restricted investment accounts of US$ 1.84 million (30 June 2019: US$ 1.89 million) (refer to statement of changes in off-balance equity of investment account holders to the financial statements).

Concentration Risk

3.12 Concentration of risks arises when a number of obligors, counterparties or investees are engaged in similar business 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. Accordingly, such concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or region.

3.13 The Bank has established limits based on geographic regions and industry sectors. The Bank's Large Exposure Policy details the Bank's exposure limits and is in compliance with the concentration limits laid down by the CBB.

Additional Public Disclosures

30 June 2020

3 **Risk Management (continued)**

3.14 The quantitative details of the Bank's credit risk exposures are depicted in the following tables, which are representative of the position during the period and, accordingly, of the average exposures:

a. Table 5: Distribution of the Bank's exposures by geographic sector as at 30 June 2020

Distribution of Bank's exposures by geographic sector

USD '000

Geographic sector	*GCC countries*	*Other MENA countries*	*Europe*	*Cayman / Americas*	*Total*
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	**78,542**	**23,894**	**8,446**	**186**	**121,569**
Off statement of financial position items					
Equity of investment account holders	1,118	-	-	-	1,118
Commitments and contingencies	14,263	30,714	859	-	45,836
	93,923	**54,608**	**9,305**	**186**	**168,523**

Note: Allocation of the Bank's exposures is based on the asset's country of risk.

Additional Public Disclosures

30 June 2020

3 Risk Management (continued)

3.14 The quantitative details of the Bank's credit risk exposures are depicted in the following tables, which are representative of the position during the period and, accordingly, of the average exposures: (continued)

b. Table 6: Distribution of the Bank's exposures by Industry Sector as at 30 June 2020

Distribution of Bank's exposures by industry sector

USD'000

Industry sector	*Trading & manuractu ring*	*Banks & financial Inst.*	*Real estate related*	*Health Care*	*Technology*	*Others*	*Total*
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 ventures accounted under the equity method	-	-	13,722	-	-	934	14,656
Murabaha financing to an 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**
Off statement of financial position items							
Equity of investment account holders	-	931	-	-	-	187	1,118
Commitments and contingencies	26,136	10,000	1,138	975	-	7,587	45,836
	26,175	**24,791**	**63,399**	**3,547**	**580**	**50,031**	**168,523**

Additional Public Disclosures

30 June 2020

3 Risk Management (continued)

3.14 The quantitative details of the Bank's credit risk exposures are depicted in the following tables, which are representative of the position during the period and, accordingly, of the average exposures: (continued)

c. Table 7: Exposures by maturity as at 30 June 2020

Distribution of Bank's exposures by maturity

USD '000

Maturity-wise exposures	*Up to 3 months*	*3 to 6 months*	*6 months to 1 year*	*Total up to 1 year*	*1 to 3 years*	*No fixed maturity*	*Total*
Assets							
Balances and placements with banks	505	-	-	505	-	-	505
Investments	1,178	-	21,235	22,413	10,447	43,518	76,378
Investment in associates and joint ventures	-	-	-	-	-	14,656	14,656
Murabaha financing to an 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**
Off statement of financial position items							
Equity of investment account holders	64	-	-	64	1,052	2	1,118
Commitments and contingencies	-	139	255	394	35,442	10,000	45,836
	2,140	**1,647**	**21,571**	**25,358**	**70,042**	**73,123**	**168,523**

Note: There are no dues which are expected to be of longer duration than 5 years.

Additional Public Disclosures

30 June 2020

3 Risk Management (continued)

3.14 The quantitative details of the Bank's credit risk exposures are depicted in the following tables, which are representative of the position during the period and, accordingly, of the average exposures:

d. *Related party transactions:*

In the ordinary course of its business the Bank enters into transactions with related parties which are at an arm's length and approved by management. The following table gives an analysis of related party transactions and balances:

Table 8: RELATED PARTY TRANSACTIONS as at 30 June 2020

RELATED PARTY TRANSACTIONS USD '000

	Associates and joint venture	Board members/ key management personnel/ Shari'a board members/ external auditors	Significant shareholders / entities in which directors are interested	Total
Assets				
Investments	10,411	-	1,121	11,532
Investments in associates and joint venture	14,656	-	-	14,656
Other assets	-	-	490	490
Liabilities				
Employee accruals	-	547	-	547
Other liabilities	-	-	159	159
Income				
Share of profit (loss) of associates and a joint venture	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

Additional Public Disclosures

30 June 2020

3 Risk Management (continued)

Market Risk Management

3.15 Market risk is defined as the risk of losses in the Bank's on and off Balance sheet positions arising from movements in market prices. These risks include:

a. Those pertaining to profit-rate related instruments and equities in the trading book.
b. Foreign exchange and commodities risk throughout the Bank.

3.16 The Bank's market risk exposures arise predominantly from its trading portfolio of listed equities and a small portfolio of foreign currency denominated assets that are not pegged to the United States Dollar. The Bank's market risk is currently not a major source of risk since the Bank's business strategy does not envisage taking on significant exposure to listed equities or foreign denominated assets. The Bank measures its market risk exposure using the Standardised Approach.

Operational Risk Management

3.17 Operational risk is defined as the risk of direct and indirect losses resulting from inadequate or failed processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risks. Operational risk differs from other banking risks in that it is not directly taken in return for an expected reward but exists in the natural course of Banking activity, which in turn affects the risk management process.

3.18 The Bank is exposed to operational risk due to the complex nature of its alternative investment products and the intricacy of the documentary, legal and other regulatory requirements that surround such investment transactions. Operational risk emanates from all areas of the Bank.

3.19 The Bank uses the Basic Indicator Approach for measuring its operational risk. Currently, the Bank conducts its business from a single location. Accordingly, the number of client relationships and volume of transactions at the Bank are lower than at institutions having multi-location or retail operations.

3.20 Notwithstanding this, the Bank's operations are conducted according to well-defined processes and procedures. These processes and procedures include a broad system of internal controls, including segregation of duties and other internal checks, which are designed to prevent either inadvertent staff errors or malfeasance prior to the release of a transaction. The Bank also engages in subsequent monitoring of accounting records, daily reconciliation of cash, bank and securities accounts and other checks to enable it to detect, on a timely basis, any erroneous or improper transactions which may have occurred.

3.21 The Bank is currently enhancing its operational risk management framework that will

a. help track operational loss events and potential exposures as well as report these on a regular basis.
b. improve the Bank's loss mitigation process and hence, the overall operational risk management framework.

In addition, the Bank is reviewing and updating its Business Continuity Plan to mitigate the risk of loss from business disruption due to unexpected events.

Additional Public Disclosures

30 June 2020

3 Risk Management (continued)

Legal Risks

3.22 Legal risk includes the risk of non-compliance with applicable laws or regulations, the illegality or unenforceability of counterparty obligations under contracts and additional unintended exposure or liability resulting from the failure to structure transactions or contracts properly.

3.23 The Bank's legal risks are mitigated through legal counsel review of transactions and documentation, as appropriate. Where possible, the Bank uses standard formats for transaction documentation. To prevent potential association with any money laundering activities, the Bank has designed and implemented a comprehensive set of policies and procedures. Adherence to the Bank's policies and procedures is reinforced through staff training as well as internal and external reviews.

Shariah compliance

3.24 The Shariah Supervisory Board (SSB) is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Shariah. The Bank also has a dedicated internal Shariah reviewer who performs an on-going review of the compliance with the fatwas and rulings of the SSB on products and processes and also reviews compliance with the requirements of the Shariah standards prescribed by AAOIFI. The SSB reviews and approves all products and services before launching and offering to the customers and also conducts periodic reviews of the transactions of the Bank. An annual audit report is issued by the SSB confirming the Bank's compliance with Shariah rules and principles.

Equity Risk in the Banking Book (Investment Risk)

3.25 The Bank invests predominantly in three major segments of alternative assets, namely venture capital, private equity and real estate with the main objective to generate consistent superior returns with reasonable risks from high quality, rigorously investigated, efficiently structured and well managed investments. The intent of such investments is a later sale at a profit to strategic investors either through a private placement offering or trade sale.

3.26 The Bank uses the Standardised Approach for measuring its investment risks, which is considered a part of its Banking Book. The Bank manages its investment risks at the specific investment level through an in-depth pre-entry due diligence process based on an established set of guidelines, criteria and parameters, as well as active on-going consulting-based monitoring by investment teams. The Bank also seeks to diversify its investments, not only geographically and sectorally, but across various revenue stages of investments as well.

3.27 Notwithstanding this, the Risk Management Department independently reviews and provides inputs on areas of risk in potential investments at an early stage of the due diligence process. Working in close co-operation with the respective investment teams, these independent risk reviews support the investment decision making process through both a qualitative assessment and quantitative analysis.

Additional Public Disclosures

30 June 2020

3 Risk Management (continued)

Unrealized Fair Value Gains (losses)

3.28 The Bank's investments which are designated at fair value through profit or loss are re-valued at every half calendar year, and the gains / (losses) recognized in the statement of income are in accordance with the relevant International Financial Reporting Standards. The valuations are performed by the Bank's investment divisions using appropriate internal valuation models with relevant market inputs and assumptions. These valuations are then independently reviewed by the Risk Management Department and the external auditors, and presented to the Board's Finance and Investment Committee for approval.

Table 9: Unrealized Fair Value (Loss) / Gain

USD '000

Particulars	***12 months ended June 2020***	***12 months ended June 2019***	***12 months ended June 2018***	***12 months ended June 2017***	***12 months ended June 2016***	***12 months ended June 2015***	***12 months ended June 2014***
Private Equity investments - fair value (losses) / gains	(31,031)	(35,615)	(3,202)	(37,810)	(17,049)	2,000	(2,250)
Real Estate investments - fair value (losses) / gain	-	-	-	-	-	-	-
Listed equity investments - fair value (losses) / gains	27	546	(631)	(456)	(459)	(327)	17
Total unrealized fair value (loss) / gain	**(31,004)**	**(35,069)**	**(3,833)**	**(38,266)**	**(17,508)**	**1,673**	**(2,233)**

Liquidity Risk Management

3.29 Liquidity risk is defined as the risk that the Bank may have insufficient funds to meet its obligations as and when they fall due i.e. risk of being unable to satisfy claims without impairment of its financial capital due to mismatches in the timing of cash flows.

3.30 The Bank has obtained an Islamic financing payables comprising short term bank borrowings of US$ 13.24 million and a medium term loan of US$ 75.66 million as at 30 June 2020. The Bank has also extended certain guarantees and commitments in support of its investment projects as disclosed in the notes to the consolidated financial statements.

3.31 The medium term loan represents 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.

Additional Public Disclosures

30 June 2020

3 Risk Management (continued)

3.32 The Bank's liquidity ratio (cash and cash equivalents plus marketable securities to total liabilities) stood at 15% as at 30 June 2020:

Table 10: Liquidity Ratio as at 30 June 2020	USD '000
Cash at bank	507
Placements at bank	0
Marketable trading securities	1,178
Short term liquidity certificates	13,397
Total liquid assets	**15,082**
Total liabilities	**99,439**
Of which, due in up to 1 year	90,606
Non current, due after 1 year or more	8,833
Liquid assets / total liabilities	**15%**
Liquid assets / current liabilities (due within 1 year)	**17%**

Additional Public Disclosures

30 June 2020

3 Risk Management (continued)

Profit Margin Rate Risk Management in the Banking Book:

3.33 As a financial intermediary, the Bank may encounter profit margin risks that arise from timing differences in the maturity and repricing of the Bank's assets and liabilities. While such repricing mismatches are fundamental to the business of banking, these can expose a bank's income and underlying economic value to unanticipated fluctuations as profit margins vary. The factors that affect profit margin rates are principally market and economic factors including inflation and growth rates. Profit margin rate risk however, is not a major source of risk for the Bank due to the absence of significant rate sensitive assets and liabilites, as indicated below. Nevertheless, the Bank monitors its exposure to rate sensitive assets and liabilities proactively and in this regard has implemented a Liquidity Management Policy which covers the following:

a) The practical steps and procedures for day to day management of liquidity.
b) Preparing periodic liquidity projections and forecasts and the review thereof.
c) Liquidity stress testing.
d) The reporting of liquidity status and projections, including stressed projections.
e) The liquidity contingency plan for identifying and dealing with unforeseen disruptive liquidity events professionally and effectively.

3.34 Table 11: Profit Margin Sensitivity Analysis in the Bank's Banking Book

	USD'000				
Position at 31 December 2019 Reprising period	***Rate sensitive assets***	***Rate sensitive liabilities***	***Gap***	***Cumulative Gap***	***Impact of 200 bp change***
> 1 day to 3 months	-	88,901	(88,901)	(88,901)	(1,778)
> 3 months to 6 months	2,084	-	2,084	(86,817)	42
> 6 months to 12 months	13,397	-	13,397	(73,420)	268
> 1 year to 5 years	6,670	-	6,670	(66,750)	133
Total	22,151	88,901			
As % of total balance sheet	18%	73%			

3.35 The impact on net income for a benchmark change of 200 basis points in profit rates is as follows:

a. Net profit margin income for the repricing period of 1 day to 3 months would potentially decrease by US$ 1,778 thousand if the profit margin rate increases by 200 basis points.

b. Net profit margin income for the repricing periods of 3 months to 6 months would potentially increase by US$ 42 thousand if the profit margin rate increases by 200 basis points.

c. Net profit margin income for the repricing periods of 6 months to 12 months would potentially increase by US$ 268 thousand if the profit margin rate increases by 200 basis points.

d. Net profit margin income for the repricing periods of 1 year to 5 years would potentially increase by US$ 133 thousand if the profit margin rate increases by 200 basis points.

Additional Public Disclosures

30 June 2020

3 Risk Management (continued)

Equity of Investment Account Holders and Displaced Commercial Risk (DCR)

3.36 The Bank's exposure to Displaced Commercial Risk is limited to its Equity of Investment Account Holders which comprises the following:

> The GCC Pre IPO Fund, which was set up in 2006 to invest in the shares of unlisted GCC companies in the pre-IPO stage. The total size of the fund is currently approximately US$ 1.1 million. The Bank manages the fund as a Mudarib, in exchange for a fee of 20% of returns over a 10% simple return. The investments in the GCC Pre IPO Fund are exposed to the general equity market risks prevalent in the GCC countries and in the real estate sectors.

> Historical returns on Equity of Investment Account Holders is shown below:

Table 12: Five Years Historical Return Data on Equity of Investment Account Holders USD'000

	12 months ended Jun 2020	*12 months ended Jun 2019*	*12 months ended Jun 2018*	*12 months ended Jun 2017*	*12 months ended Jun 2016*	*12 months ended Jun 2015*
GCC Pre IPO Fund						
Net profit/(loss)	-	-	(438)	(808)	4	(152)
Total assets	1,118	1,887	2,106	2,744	3,756	3,833
Total equity	1,118	1,887	2,106	2,744	3,756	3,833
Return on assets (ROA)	0%	0%	-21%	-29%	0%	-4%
Return on equity (ROE)	0%	0%	-21%	-29%	0%	-4%

3.37 The Bank is aware of the importance of its fiduciary responsibilities in the management of the Equity of Investment account holders. Transactions with Investment Account Holders are entered into only on the basis of signed subscription and underlying investment agreements, and internal procedures are in place for the proper management and handling of these responsibilities. (Refer to statement of changes in off-balance equity of investment account holders to the financial statements).

Additional Public Disclosures

30 June 2020

4 Impairment Provisions:

The Group has early adopted FAS 30, effective from 1 July 2018 which has a mandatory date of initial application of 1 January 2020. The requirements of FAS 30 represent a significant change from FAS 11 "Provisions and Reserves".

As permitted by FAS 30, the standard has been applied retrospectively and the comparative amounts have not been restated. The impact of the early adoption of FAS 30 has been recognised in accumulated losses in the consolidated statement of changes in equity. The standard eliminates the use of the existing FAS 11 incurred loss impairment model approach.

The key changes to the Group's accounting policies resulting from its adoption of FAS 30 are summarized below:

a) 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 contengencies and commitments. Balances relating to these contracts are stated net of allowance for credit losses.

b) Impairment assessment (policy applicable from 1 July 2018)

Impairment of financial assets

FAS 30 replaces the 'incurred loss' model in FAS 11 with Expected Credit Loss (ECL) model. The new impairment model also applies to certain financing commitments and financial guarantee contracts but not to equity investments.

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:

Additional Public Disclosures

30 June 2020

Stage 1: twelve months ECL
For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the lifetime ECL's that represent the ECL that result from default events on a financial contract that is possible within 12 months after the reporting date (or a shorter period if the expected life of the financial instrument is less than 12 months) of the lifetime ECL associated with the probability of default events occurring within next twelve months after the reporting date is recognised.

Stage 2: lifetime ECL – not credit impaired
For credit exposures where there has been a 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.

Lifetime ECL (Stage 2) 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 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 case where there is no collaterals or guarantees which the Group can 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 .

Additional Public Disclosures

30 June 2020

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 90 days on any material credit obligation 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 computaion
- 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 a parentage that 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) purpouses 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.

Additional Public Disclosures

30 June 2020

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 efforts. 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 had different credit risk at initial recognition.

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 losses 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.

Additional Public Disclosures

30 June 2020

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)**
Reversal / (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 2019				
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 2019	**(273)**	**(3,990)**	**(25,866)**	**(30,129)**

Additional Public Disclosures

30 June 2020

5 **Corporate Governance and Transparency**

Disclosures on corporate governance and transparency, including qualifications and experience of directors have been disclosed in the Annual Report for year ended 30 June 2020. The following tables give details of distribution of shares by nationality, ownership of shares by directors etc.

5.1 Table 15: Distribution of shareholders by nationality:

Country	*Ownership %*
United Arab Emirates	3.29%
Kuwait	23.66%
Kingdom of Saudi Arabia	57.71%
Qatar	4.78%
Oman	2.57%
Kingdom of Bahrain	7.99%
Total	**100.0%**

5.2 Table 16: Distribution of shareholders by size of shareholding:

Ownership %	*Number of shareholders*
Less than 1%	149
1% - 2%	15
2% - 3%	6
3% - 4%	2
4% - 5%	0
More than 5%	2
Total	**174**

Two of the Bank's shareholders hold more than 5% ownership in the Bank. These are corporate shareholders noted below:

- The Commercial Real Estate Co. (K.S.C.C.) – 7.23% ownership; and
- Securities Group (K.S.C.C.) – 6.02% ownership.

5.3 Ownership of shares by government:
The Bahrain Development Bank B.S.C. (c), a public sector organization owned by the Government of Bahrain has a 1.19% interest in the share capital of the Bank.

5.4 Ownership of shares by Board members:
Four members of the Board have shareholdings ranging from 0.39% to 1.19% of total capital. In addition a number of Board members represent corporate shareholders with shares ranging from 0.48% to 7.23%.

The Board is responsible for the stewardship of the Bank's business and affairs on behalf of the shareholders, with a view to enhancing long-term shareholder value whilst taking into account the interests of other stakeholders, and maintaining high standards of transparency and accountability. The Board comprises 8 members, the majority of whom are independent non-executive Directors.

Additional Public Disclosures

30 June 2020

Disclosure template for main features of regulatory capital instruments

1	Issuer	VENTURE CAPITAL BANK B.S.C. (c)
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	All applicable laws and regulations of the Kingdom of Bahrain
	Regulatory treatment	
4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group & solo
7	Instrument type (types to be specified by each jurisdiction)	Equity shares
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	USD 190 million
9	Par value of instrument	USD 1.00
10	Accounting classification	Equity
11	Original date of issuance	26 September 2005
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	NA