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

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 MARCH 2021 (Reviewed)

Building a better working world

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REPORT ON REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF VENTURE CAPITAL BANK B.S.C. (c)

Introduction

We have reviewed the accompanying interim consolidated statement of financial position as at 31 March 2021 of Venture Capital Bank B.S.C. (c) ("the Bank") and its subsidiaries (together "the Group"), the related interim consolidated statement of income for the three and nine month periods then ended and the interim consolidated statements of changes in equity, cash flows and changes in off-balance sheet equity of investment account holders for the nine month period then ended and explanatory notes. The Board of Directors of the Bank is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the accounting policies described in note 4. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for adverse conclusion

1. We draw attention to note 2 to the accompanying interim condensed consolidated financial statements. As stated therein, during the period ended 31 March 2021 the Group incurred a net loss of US$ 15,184 thousand and, as of that date, the Group's total assets with maturities up to 12 months fall short of the Group's liabilities with similar maturity by US$ 94,523 thousand. The Group is also in certain regulatory breaches as explained in note 3 to the interim condensed consolidated financial statements. Based on our judgement, these conditions, together with the potential effect of the matters described in paragraphs 2, 3 and 4 below, indicate that the going concern assumption used in the preparation of the accompanying interim condensed consolidated financial statements is not appropriate. The accompanying interim condensed consolidated financial statements do not contain any adjustments that would result if the Group is unable to continue as a going concern.

2. As disclosed in note 10, as of 31 March 2021, the Group has a past due Wakala contract receivable of US$ 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 the interim condensed consolidated financial statements. In our judgement, an additional provision of US$ 6,670 thousand is required against the Wakala contract receivable.

REPORT ON REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF VENTURE CAPITAL BANK B.S.C. (c)

Basis for adverse conclusion (continued)

3. As disclosed in note 12, the Group obtained funding of US$ 13,241 thousand as an unrestricted Wakala payable, related to the matter referred to in paragraph 2 above. The Group claimed that these two transactions were eligible to be netted off. This matter was referred to arbitration at the Bahrain Chamber for Dispute Resolution ("BCDR") who, on 20 May 2021, issued a judgement based on which the Group has been ordered to pay US$ 13,391 thousand maturity proceeds, US$ 916 thousand late payment charges, a daily penalty charge of US$ 1,375 from the date of the judgement until final settlement and BD 297 thousand of arbitration costs. The Group has not made the required accrual of US$ 1,705 thousand for the late payment charges and arbitration costs in the accompanying interim condensed consolidated financial statements.

4. As disclosed in note 15, the Group has issued letters of guarantee to certain investment companies/projects. For one such letter of guarantee, the lender has initiated legal action against the investee company and have demanded validation of the corporate guarantees provided by various shareholders of the investee company, including the Group, from which material liabilities could arise. The Group's share of the potential liability arising from this letter of guarantee is US$ 15,232 thousand against which management has provided US$ 3,140 thousand as at 31 March 2021. We have been unable to obtain sufficient corroborative evidence to support the adequacy of management's provision of US$ 3,140 thousand.

Adverse conclusion

Our review indicates that, based on the matters described in the "basis for adverse conclusion" paragraphs above, the Group's accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with the accounting policies described in note 4.

Ernst + Young

11 October 2021
Manama, Kingdom of Bahrain

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2021 (Reviewed)

	Note	***Reviewed***	*Restated*	
		31 March	*30 June*	*1 July*
		2021	*2020*	*2019*
	Note	***USD '000***	*USD '000*	*USD '000*
ASSETS				
Balances and placements with banks	8	**625**	505	10,175
Investments		**93,134**	83,029	119,119
Investments in associates and a joint venture accounted under the equity method		**13,914**	14,656	22,701
Murabaha financing to investee companies	9	**87**	472	30,406
Wakala contract receivable	10	**6,670**	6,670	10,672
Receivables		**1,488**	2,020	1,976
Funding to project companies		**2,678**	3,181	5,693
Other assets	11	**4,853**	8,909	26,053
Right-of-use assets		**3,187**	3,831	-
Property and equipment		**4,703**	4,947	7,480
TOTAL ASSETS		**131,339**	128,220	234,275
LIABILITIES				
Islamic financing payables	12	**92,120**	88,901	109,692
Employee accruals		**926**	796	1,440
Ijarah liability		**3,316**	3,894	-
Other liabilities	13	**28,954**	13,589	20,885
Total liabilities		**125,316**	107,180	132,017
EQUITY				
Share capital		**190,000**	190,000	190,000
Statutory reserve		**5,859**	5,859	5,859
Foreign currency translation reserve		**-**	(167)	(71)
Accumulated losses		**(189,836)**	(174,652)	(93,530)
Total equity		**6,023**	21,040	102,258
TOTAL LIABILITIES AND EQUITY		**131,339**	128,220	234,275
OFF-BALANCE SHEET ITEMS				
Equity of investment account holders		**1,212**	1,118	1,887

Abdulfatah Mohd. Rafie Marafie
Chairman

Mohammed Ahmed Jumaan
Board Member

The attached notes 1 to 17 form part of these interim condensed consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF INCOME

Nine month period ended 31 March 2021 (Reviewed)

	Note	*Three-months ended 31 March*		*Nine-months ended 31 March*	
		2021 Reviewed	*2020 Restated*	***2021 Reviewed***	*2020 Restated*
		USD '000	*USD '000*	***USD '000***	*USD '000*
REVENUE					
Income from investment banking services - net		**61**	-	**523**	1,612
Gain (loss) on sale of investments		**1**	36	**(20)**	769
Finance income		**-**	81	**-**	608
Dividend income		**269**	282	**794**	1,496
Rental and other income	14	**539**	39	**1,993**	2,821
Total revenue		**870**	438	**3,290**	7,306
OTHER GAINS (LOSSES)					
Fair value gains (losses) on investments carried at fair value through profit or loss - net		**-**	(3,341)	**9,727**	(21,963)
		870	(2,903)	**13,017**	(14,657)
EXPENSES					
Staff costs		**896**	857	**2,535**	2,546
Travel and business development expenses		**1**	32	**2**	127
Legal and professional fees		**536**	84	**1,324**	390
Finance expense		**1,049**	1,060	**3,238**	3,311
Depreciation		**146**	80	**340**	243
Other expenses		**932**	1,106	**3,097**	3,297
Total expenses		**3,560**	3,219	**10,536**	9,914
INCOME (LOSS) BEFORE IMPAIRMENT PROVISIONS AND SHARE OF LOSS OF ASSOCIATES AND A JOINT VENTURE		**(2,690)**	(6,122)	**2,481**	(24,571)
Impairment of investments		**(14)**	(3,895)	**(4,050)**	(18,326)
(Provision) reversal for credit losses	5	**(2,029)**	44	**(13,599)**	(11,016)
Impairment of property and equipment		**-**	-	**-**	(681)
Share of (loss) profit from associates and a joint venture - net		**-**	-	**(16)**	94
NET LOSS FOR THE PERIOD		**(4,733)**	(9,973)	**(15,184)**	(54,500)

Abdulfatah Mohd. Rafie Marafie
Chairman

Mohammed Ahmed Jumaan
Board Member

The attached notes 1 to 17 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Nine month period ended 31 March 2021 (Reviewed)

	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 2020 (previously reported)	190,000	5,859	(167)	(173,563)	22,129
Effect of restatement - note 17	-	-	-	(1,089)	(1,089)
Balance at 1 July 2020 (restated)	190,000	5,859	(167)	(174,652)	21,040
Net loss for the period	-	-	-	(15,184)	(15,184)
Foreign currency translation difference on disposal of investment in an associate	-	-	167	-	167
Balance at 31 March 2021	**190,000**	**5,859**	**-**	**(189,836)**	**6,023**
Balance at 1 July 2019 (previously reported)	190,000	5,859	(71)	(93,302)	102,486
Effect of restatement - note 17	-	-	-	(228)	(228)
Balance at 1 July 2019 (restated)	190,000	5,859	(71)	(93,530)	102,258
Net loss for the period (restated)	-	-	-	(54,500)	(54,500)
Foreign currency translation difference on investment in an associate	-	-	(96)	-	(96)
Balance at 31 March 2020 (restated)	190,000	5,859	(167)	(148,030)	47,662

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Nine month period ended 31 March 2021 (Reviewed)

	Note	2021 USD '000	Restated 2020 USD '000
OPERATING ACTIVITIES			
Net loss for the period		**(15,184)**	(54,500)
Adjustments for:			
Share of loss (profit) of associates and a joint venture accounted under the equity method		**16**	(94)
Impairment of property and equipment		**-**	18,326
Provision for credit losses	5	**13,599**	11,016
Impairment of investments		**4,050**	681
Fair value (gains) losses on investments carried at fair value through profit or loss		**(9,727)**	21,963
Loss (gain) on sale of investment		**20**	(769)
Depreciation		**340**	243
Finance cost on right-of-use asset		**8**	(1,496)
Dividend income		**(794)**	-
Operating losses before changes in operating assets and liabilities		**(7,672)**	(4,630)
Changes in operating assets and liabilities:			
Investments		**(5,822)**	(16,865)
Investments in associates and a joint venture accounted under the equity method		**764**	57
Wakala contract receivable		**-**	(1)
Receivables		**747**	20
Funding to project companies		**655**	358
Other assets		**4,339**	8,809
Employee accruals		**130**	(1,184)
Islamic financing payables		**3,219**	-
Other liabilities		**1,156**	(7,014)
Net cash used in operating activities		**(2,484)**	(20,450)
INVESTING ACTIVITIES			
Dividends paid		**-**	1,496
Dividends received		**-**	2,854
Proceeds from sale of investment		**2,130**	1
Net cash from investing activities		**2,130**	4,351
FINANCING ACTIVITIES			
Murabaha financing to investee company		**346**	29,156
Rent paid towards right-of-use asset		**(38)**	(21,873)
Net cash from financing activities		**308**	7,283
Foreign currency translation adjustments		**167**	(96)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**121**	(8,912)
Cash and cash equivalents at beginning of the period		**505**	10,175
ECL (charged) reversed on balances and placements with banks	5	**(1)**	21
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**625**	1,284
Cash and cash equivalents per the consolidated statement of financial position			
Balances with banks	8	**625**	1,284

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

Nine month period ended 31 March 2021 (Reviewed)

31 March 2021		***Movements during the period***					
	Balance at 1 July 2020 USD '000	***Investment/ (repayment) USD '000***	***Fair value movement USD '000***	***Net income USD '000***	***Dividends paid USD '000***	***Bank's fees as an agent USD '000***	***Balance at 31 December 2020 USD '000***
GCC Pre IPO Fund	**1,118**	**-**	**(2)**	**96**	**-**	**-**	**1,212**
Investment in equities							**963**
Other receivables							**247**
Balances with banks							**2**
Total							**1,212**

31 March 2020		*Movements during the period*					
	Balance at 1 July 2019 USD '000	*Investment/ (repayment) USD '000*	*Fair value movement USD '000*	*Net Income USD '000*	*Dividends paid USD '000*	*Bank's fees as an agent USD '000*	*Balance at 31 December 2019 USD '000*
GCC Pre IPO Fund	1,887	-	(114)	-	-	-	1,773
Investment in equities							1,707
Other receivables							64
Balances with banks							2
Total							1,773

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.

The attached notes 1 to 17 form part of these interim condensed consolidated financial statements.

1 INCORPORATION AND ACTIVITIES

Incorporation

Venture Capital Bank B.S.C. (c) ("the Bank") was incorporated in the Kingdom of Bahrain on 26 September 2005 as a closed shareholding company under commercial registration (CR) number 58222 issued by the Ministry of Industry, Commerce and Tourism ("MOICT"). 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'ah under the guidance and supervision of the Bank's Shari'ah Supervisory Board, and in compliance with applicable laws and regulations.

The interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiary companies (collectively, "the Group").

These interim condensed consolidated financial statements were approved by the Bank's Board of Directors on 6 October 2021.

2 FUNDAMENTAL ACCOUNTING ASSUMPTION

The Group incurred a net loss of USD 15,184 thousand (31 March 2020: net loss of USD 54,500 thousand) during the period ended 31 March 2021, and as of that date, 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 94,523 thousand (30 June 2020: 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 31 March 2021, 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 (EGM) 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. An EGM was held on 30 November 2020, where the shareholders resolved to restructure the Group's capital to bring it back into compliance with the BCCL requirements. Subsequent to 31 March 2021, the MOICT approval has been received regarding recording of the Group's new capital structure in its commercial register. Therefore, the impact of the capital restructure will be reflected in the Group's consolidated financial statements as of 30 June 2021.

On 30 June 2021, the Bank signed a settlement agreement and settled its Islamic financing payable amounting to USD 78,879 thousand in exchange for ownership in various investment assets of equivalent value currently held by the Bank as of 31 December 2020. This will significantly reduce the Bank's total liabilities currently reported with maturity up to 12 months and improve the net liquidity gap noted above of USD 94,523 thousand by USD 78,879 thousand. Based on management's assessment, the impact of the restructuring agreements will be, but not limited to, the following:

- decrease in liabilities related to Islamic financing payable by USD 78,879 thousand;
- decrease in total assets by USD 78,879 thousand; and
- Improvement in capital adequacy ratio from 0.68% to 1.47%.

2 FUNDAMENTAL ACCOUNTING ASSUMPTION (continued)

On 20 May 2021, the Bank received a final award issued by the arbitral tribunal related to an arbitration case with a local bank related to short-term Wakala Islamic financing which required the Bank to pay the maturity proceeds of USD 13,391 thousand along with late payment charges of USD 916 thousand, arbitration costs of BHD 297 thousand and a daily penalty of USD 1,375 from the date of the judgement. The management is in the process of appealing this award and filing a counterclaim related to its Wakala contract receivable and related charges from the same counterparty of a similar amount which could effectively result in a netting of part or whole of the amount awarded to the claimant under the final award. Furthermore, with a 50% provision already booked by the Bank under the Wakala contract receivable of USD 13,341 thousand, management is of the view that no further provision is required at this time.

The Bank had issued a letter of guarantee to a certain investment company/project valued at 130% of the Bank's share in the company's outstanding obligation (including principal and accrued profits) of USD 15,323 thousand. In addition to the corporate guarantees, the investee company has also pledged its primary asset to the lender against these obligations. While the depreciated cost of the asset exceeds the outstanding obligation of the investee company, the fair value of the asset is difficult to ascertain due to the operations of the investee company being on halt due to current economic conditions. Management is working on several strategic options to revive the company's operations in order to enhance the value of the company and its assets. In the interim, management had commissioned an independent valuation of the investee company's operations on a going concern basis in order to assess the net impact to the Bank resulting from the corporate guarantee. As a result, a provision of USD 3,140 thousand was recorded as of 31 March 2021 considering the net exposure of the Bank to the company's obligations after accounting for the independent value of the company's operations.

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 interim condensed 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 31 March 2021.

3 REGULATORY NON-COMPLIANCE

The Bank did not comply with the following CBB requirements during the period ended 31 March 2021:

- Total shareholders' equity amounted USD 6,023 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 0.68%, 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 0.44%, 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 5%, 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 0.00%, 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.

4 BASIS OF PREPARATION AND ACCOUNTING POLICIES

4.1 Basis of preparation

The interim condensed consolidated financial statements for the nine month period ended 31 March 2021 have been prepared in accordance with the guidance given by International Accounting Standard 34 - "*Interim Financial Reporting*". The interim condensed consolidated financial statements do not contain all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 30 June 2020. In addition, results for the nine-months ended 31 March 2021 are not necessarily indicative of the results that may be expected for the financial year ending 30 June 2021.

The annual consolidated financial statements for the year ended 30 June 2020 were prepared in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") and the Shari'ah rules and principles as determined by the Shari'ah Supervisory Board of the Group, and in conformity with the Bahrain Commercial Companies Law, 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 articles of association. For matters which are not covered by AAOIFI standards, including "Interim Financial Reporting", the Group uses International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board.

4.2 Basis of consolidation

The interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the nine month period ended 31 March 2021. The audited financial statements of the subsidiaries are prepared using the same annual reporting period ending on 30 June, using consistent accounting policies.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed off during the period are included in the interim 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 profits and losses resulting from intra-group transactions are eliminated in full.

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

There is no change in the percentage holding of these subsidiaries during the period. Key subsidiaries of the Group which are consolidated are as follows:

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 VC 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.

4 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

4.2 Basis of consolidation (continued)

* The Group's investment in GMCB Co. W.L.L. is 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 entity in the near future. Management is actively seeking a buyer in accordance with FAS 23.

** The Group's investment in Food Vest Holding W.L.L. is not consolidated on a line by line basis as the Group is undergoing regulatory formalities to dispose of this entity.

The carrying value of these unconsolidated subsidiaries currently classified under Investments as held for sale amounted to USD 10,101 thousand as at 31 March 2021 (30 June 2020: USD 10,411 thousand).

4.3 Accounting convention

The interim condensed 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.

4.4 Adoption of new accounting standards

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual audited consolidated financial statements for the year ended 30 June 2020, except for the adoption of new standards and interpretations effective for periods starting on or after 1 January 2020. The following new standards were issued by AAOIFI initially effective from 1 January 2020. However, in the wake of the COVID-19 pandemic, the Accounting and Auditing Board (AAB) of AAOIFI in its meeting held on 18 March 2020 decided to provide a one year extension of the effective date to 1 January 2021, with early adoption permitted, of the recently issued AAOIFI FASs as mentioned below:

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 is effective for accounting periods beginning on or after 1 January 2021.

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 is effective for accounting periods beginning or after 1 January 2021.

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 is effective for accounting periods beginning on or after 1 January 2021.

The Group's management is currently assessing the impact of the above new accounting standards on the Group's interim condensed consolidated financial statements.

4.5 Going concern assessment

As of 31 March 2021, the Group's bank balances amounted to USD 625 thousand and there was a short-term maturity mismatch (current liabilities in excess of current assets) of USD 94,523 thousand principally due to the inclusion of a USD 78,879 thousand Wakala financing payable to a creditor that became past due in the last financial year and remained unsettled at the period end. However, management has undertaken various initiatives to improve its liquidity and strengthen its financial position.

4 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

4.5 Going concern assessment (continued)

As of 30 June 2021, the Group has signed restructuring agreements to settle its USD 78,879 thousand (including profit expense accrued) of Wakala financing with its creditor. Management arranged through restructuring agreements to settle this obligation in exchange for ownership in various investment assets of equivalent value currently held by the Bank as of 31 March 2021. The restructuring agreements were signed on 30 June 2021.

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 interim condensed 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 31 March 2021.

5 IMPAIRMENT OF FINANCIAL ASSETS

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. The Group applies a three-stage approach to measure ECL on financial assets carried at amortised cost.

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 results 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).

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. 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.

5 IMPAIRMENT OF FINANCIAL ASSETS (continued)

Stage 3: Lifetime ECL – credit impaired (continued)

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 and are gross of credit losses allowances:

	31 March 2021 (Reviewed)			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
	USD '000	***USD '000***	***USD '000***	***USD '000***
Exposures subject to ECL				
Balances and placement with banks	627	-	158	785
Murabaha financing to investee companies	-	436	914	1,350
Wakala contract receivable	-	-	13,341	13,341
Receivables	-	140	9,584	9,724
Funding to project companies	-	3,524	1,099	4,623
Other assets	162	5,868	9,118	15,148
	789	**9,968**	**34,214**	**44,971**
Guarantees and commitments	4,147	11,390	26,839	42,376
	4,936	**21,358**	**61,053**	**87,347**

	1 July 2020 (Audited)			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	USD '000	*USD '000*	*USD '000*	*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	9,740	10,471
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	34,109	50,937
Guarantees and commitments	4,147	41,689	-	45,836
	9,876	52,788	34,109	96,773

*Other assets subject to ECL excludes advances to invest in projects (refer note 11).

5 IMPAIRMENT OF FINANCIAL ASSETS (continued)

The table below shows the changes in ECL allowances during the period as follows:

	(Reviewed)			
	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 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)	(8,388)	(8,451)
Funding to project companies	-	(1,166)	(931)	(2,097)
Other assets	(203)	(1,310)	(9,065)	(10,578)
Guarantees and commitments	(10)	(940)	-	(950)
	(273)	**(3,990)**	**(25,867)**	**(30,130)**
Reversal / (charge) during the period				
Balances and placement with banks	(1)	-	-	(1)
Murabaha financing to investee companies	-	221	(260)	(39)
Wakala contract receivable	-	-	-	-
Receivables	59	-	156	215
Funding to project companies	-	152	-	152
Other assets	203	80	-	283
Guarantees and commitments	-	912	(15,121)	(14,209)
	261	**1,365**	**(15,225)**	**(13,599)**
Balance at 31 March 2021				
Balances and placement with banks	(2)	-	(158)	(160)
Murabaha financing to investee companies	-	(349)	(914)	(1,263)
Wakala contract receivable	-	-	(6,671)	(6,671)
Receivables	-	(4)	(8,232)	(8,236)
Funding to project companies	-	(1,014)	(931)	(1,945)
Other assets	-	(1,230)	(9,065)	(10,295)
Guarantees and commitments	(10)	(28)	(15,121)	(15,159)
As at 31 March 2021	**(12)**	**(2,625)**	**(41,092)**	**(43,729)**

During the nine month period ended 31 March 2021, an exposure amounting to USD 15,232 thousand relating to 'Guarantees and commitments' have been transferred from stage 2 to stage 3.

6 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 interim condensed consolidated financial statements.

7 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent associated companies, shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions with related parties during the period were as follows:

	Reviewed Nine-months ended	
	31 March 2021 USD '000	*31 March 2020 USD '000*
Finance income	**-**	602
Other expenses	**200**	836
Share of loss of associates and a joint venture - net	**(16)**	94

Balances with related parties are as follows:

	Reviewed 31 March 2021 USD '000	*Audited 30 June 2020 USD '000*
Assets:		
Investments	**11,467**	11,532
Investments in associates and joint venture accounted under the equity method	**13,914**	14,656
Other assets	**433**	490
Liabilities:		
Employee accruals	**598**	547
Other liabilities	**15,303**	159

Compensation for key management, including executive officers, comprises the following:

	Reviewed Nine-months ended	
	31 March 2021 USD '000	*31 March 2020 USD '000*
Salaries and other short term benefits	**401**	674
Post-employment benefits	**25**	22
	426	696

8 BALANCES AND PLACEMENTS WITH BANKS

	Reviewed 31 March 2021 USD '000	*Audited 30 June 2020 USD '000*
Balances in current and call accounts	**785**	664
Less: ECL provision	**(160)**	(159)
Net cash and cash equivalents	**625**	505

As of the date of these interim condensed consolidated financial statements there were restrictions imposed on the Group's balances and placements with banks resulting from a pending legal case. The management is actively working on having these restrictions removed.

9 MURABAHA FINANCING TO INVESTEE COMPANIES

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 period on these financing contracts.

10 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 (2020: USD 6,671 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.

11 OTHER ASSETS

During the period, advances to invest in projects amounting to USD 4,251 thousand have been reclassified to investments.

12 ISLAMIC FINANCING PAYABLES

Short-term Islamic Wakala payables:	Note	***Reviewed 31 March 2021 USD '000***	*Audited 30 June 2020 USD '000*
Non-bank	12.1	**78,879**	75,660
Financial institutions	12.2	**13,241**	13,241
		92,120	88,901

12 ISLAMIC FINANCING PAYABLES (continued)

12.1 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, the Group has signed restructuring agreements to settle its USD 78,879 thousand (including profit expense accrued) of Wakala financing principal amount with its creditor. Management arranged through restructuring agreements 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 31 December 2020. The restructuring agreements were signed on 30 June 2021.

12.2 This consists of short-term Wakala Islamic financing from a local bank 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 2020: 2.75% and 0.0%). The Group is undergoing a legal case to net off the payable amount against the Wakala contract receivable. Subsequent to the reporting date, on 20 May 2021 the BCDR issued a judgement based on which the Bank has been ordered to pay USD 13,391 thousand principal, late payment charges of USD 916 thousand, and arbitration costs of BHD 297 thousand, for which the Group has not made accruals of USD 1,705 thousand in the accompanying interim condensed consolidated financial statements.

13 OTHER LIABILITIES

	Reviewed	*Restated*	
	31 March 2021	*30 June 2020*	*1 July 2019*
	USD '000	*USD '000*	*USD '000*
Accounts payable	**10,903**	10,922	17,303
Provisions and accruals	**901**	602	1,567
Deferred income	**1,270**	1,303	1,274
Provision against guarantees	**15,095**	-	-
Other	**785**	762	741
	28,954	13,589	20,885

Guarantees relate to corporate guarantees provided by the Group to various creditors to support financing to one of its project companies. During the period, certain legal claims were received from creditors which the Group is currently in the process of assessing its legal position and a defense strategy. Management has found it prudent to recognise provisions against such claims on its interim consolidated statement of financial position along with appropriate provisions.

The amount reported in the Group's interim consolidated statement of financial position sheet related to such claims under other liabilities was USD 15,095 thousand (2019: Nil) which have been charged by the Group during the period in the interim consolidated statement of income.

14 RENTAL AND OTHER INCOME

	Reviewed Nine-months ended	
	31 March 2021	*31 March 2020*
	USD '000	*USD '000*
Rental income	**946**	303
Recoveries of impaired receivables	**978**	1,815
Other	**69**	703
	1,993	2,821

15 COMMITMENTS AND CONTINGENCIES

The Group has outstanding letters of guarantee in respect of projects on which the Group has provided USD 15.1 million, and commitments to finance and invest as follows:

	Reviewed 31 March 2021 USD '000	*Audited 30 June 2020 USD '000*
Letters of guarantee	**31,981**	30,864
Commitments to invest	**10,395**	14,972
	42,376	45,836

16 FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments held by the Group as at 31 March 2021 and 30 June 2020:

	31 March 2021 (Reviewed)			
	Fair value through profit or loss USD '000	***Equity-type at fair value through equity USD '000***	***Amortised cost USD '000***	***Total USD '000***
ASSETS				
Balances and placements with banks	-	-	625	625
Investments	56,393	36,741	-	93,134
Murabaha financing to investee companies	-	-	87	87
Wakala contract receivable	-	-	6,670	6,670
Receivables	-	-	1,488	1,488
Funding to project companies	-	-	2,678	2,678
Other assets	-	-	4,687	4,687
TOTAL FINANCIAL ASSETS	**56,393**	**36,741**	**16,235**	**109,369**
Off-balance sheet				
Equity of investment account holders	**-**	**963**	**249**	**1,212**

	30 June 2020 (Restated)			
	Fair value through profit or loss USD '000	*Equity-type at fair value through equity USD '000*	*Amortised cost USD '000*	*Total USD '000*
ASSETS				
Balances and placements with banks	-	-	505	505
Investments	43,563	39,466	-	83,029
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	43,563	39,466	21,679	104,708
Off-balance sheet				
Equity of investment account holders	-	1,052	66	1,118

16 FINANCIAL INSTRUMENTS (continued)

At 31 March 2021 and 30 June 2020, all the financial liabilities of the Group are classified under 'amortised cost'.

Fair value hierarchy

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

Fair values of quoted securities are derived from quoted market prices in active markets, if available. For unquoted securities, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices 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; and
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 period.

Fair value hierarchy of investments

31 March 2021	***Level 1 USD '000***	***Level 2 USD '000***	***Level 3 USD '000***	***Total USD '000***
Investments:				
Held for trading	**9**	**-**	**-**	**9**
Fair value through profit or loss	**-**	**-**	**56,384**	**56,384**
Equity-type at fair value through equity	**-**	**-**	**36,741**	**36,741**
	9	**-**	**93,125**	**93,134**

30 June 2020 (restated)	*Level 1 USD '000*	*Level 2 USD '000*	*Level 3 USD '000*	*Total USD '000*
Investments:				
Held for trading	1,178	-	-	1,178
Fair value through profit or loss	-	-	42,385	42,385
Equity-type at fair value through equity	-	-	39,466	39,466
	1,178	-	81,851	83,029

1 July 2019 (restated)	*Level 1 USD '000*	*Level 2 USD '000*	*Level 3 USD '000*	*Total USD '000*
Investments:				
Held for trading	4,090	-	-	4,090
Fair value through profit or loss	-	-	79,210	79,210
Equity-type at fair value through equity	-	-	35,819	35,819
	4,090	-	115,029	119,119

16 FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (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 three 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 9.8% to 20.85%. 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 a 10% increase in the discount rates, which is a key variable used in the valuation technique, would decrease the fair values by approximately USD 1,401 thousand, whereas a 10% decrease in the discount rate would increase the fair values by approximately USD 2,449 thousand. The potential income effect of a 10% 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 5,384 thousand or reduce the fair values by approximately USD 5,240 thousand respectively.

Investments amounting to USD 36,741 thousand (30 June 2020: USD 39,466 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.

The fair values of the Group's other financial instruments are not significantly different from their carrying values as at 31 March 2021 and 30 June 2020. There were no transfers of financial assets between Level 1, Level 2 and Level 3.

17 RESTATEMENT OF COMPARATIVES

On 30 June 2016, the Bank entered into an agreement with Saudi VC investment Company ("SVCIC"), an associate of the Bank, to purchase certain shares of Goknur (a project managed by the Bank) in order to assist SVCIC in disposing these shares to third party investors. At the time, the Bank’s intention was to broker the shares to third-party investors on behalf of SVCIC without assuming any direct exposure to the project. While the Bank was able to sell most of these shares to third party investors, certain shares remained unsold as the initial buyer interest did not fully materialise. Based on a review performed by management and several discussions with SVCIC management and its Board, the Bank's management has assessed that an obligation remained on the Bank towards SVCIC for the unsold shares which needs to be reflected in the Bank's consolidated financial statements along with the recognition of the unsold shares as an investment in Goknur. Prior to 31 December 2020 these shares were not recognised as an investment by the Bank and accordingly the Bank’s investment in Goknur, including the corresponding changes in the fair value of the investment and its liabilities to SVCIC, were not reflected within the consolidated financial statements of the Bank for the years ended from 30 June 2016 to 30 June 2020. Management has corrected the errors in these interim condensed consolidated financial statements by restating comparatives for each of the affected financial statement line items as presented below:

17 RESTATEMENT OF COMPARATIVES (continued)

	1 July 2019		
	Previously reported USD '000	*Adjustment USD '000*	*Restated USD '000*
STATEMENT OF FINANCIAL POSITION			
ASSETS			
Investments at fair value through profit or loss	71,073	8,137	79,210
Other assets	26,678	(625)	26,053
LIABILITIES			
Other liabilities	13,145	7,740	20,885
EQUITY			
Accumulated losses	(93,302)	(228)	(93,530)

	30 June 2020		
	Previously reported USD '000	*Adjustment USD '000*	*Restated USD '000*
STATEMENT OF FINANCIAL POSITION			
ASSETS			
Investments at fair value through profit or loss	35,734	6,651	42,385
LIABILITIES			
Other liabilities	5,849	7,740	13,589
EQUITY			
Accumulated losses	(173,563)	(1,089)	(174,652)

	Nine-months ended 31 March 2020		
	Previously reported USD '000	*Adjustment USD '000*	*Restated USD '000*
STATEMENT OF INCOME			
Fair value losses on investments carried at fair value through profit or loss - net	(17,200)	(4,763)	(21,963)