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

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 SEPTEMBER 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 were engaged to review the accompanying interim condensed consolidated financial statements of Venture Capital Bank B.S.C. (c) ("the Bank") and its subsidiaries (together "the Group"), which comprise the interim consolidated statement of financial position as at 30 September 2021, and the related interim consolidated statements of income, changes in equity, cash flows and changes in off-balance sheet equity of investment account holders for the three 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

Our responsibility is to conduct a review of the Group's interim condensed consolidated financial statements in accordance with International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. However, because of the significance of the matters described in *Basis for Disclaimer of Conclusion* section of our report, we were not able to obtain sufficient appropriate evidence to form a conclusion on the accompanying interim condensed consolidated financial statements.

Basis for Disclaimer of Conclusion

1. We draw attention to note 2 to the accompanying interim condensed consolidated financial statements. As stated therein, during the period ended 30 September 2021 the Group incurred a net loss of USD 1,749 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 USD 14,089 thousand. The Group is also in certain regulatory breaches as explained in note 3 to the interim condensed consolidated financial statements. These conditions, together with the potential effect of matters described in paragraphs 2 to 7 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 may be warranted if the Group was unable to continue as a going concern nor do they adequately describe the basis for the going concern assumption.

2. As disclosed in note 6, the Group manages, in a fiduciary capacity, certain investments. The Group was found to be non-compliant with certain regulatory requirements in relation to the admission of certain investors, as well as other fiduciary responsibilities. The Group is exposed to potential claims in relation to these matters for which no provision has been recognised in the interim condensed consolidated financial statements. We were not provided with sufficient appropriate evidence to assess the amount and the timing of the settlement amounts of these claims. Consequently, we are unable to determine the adjustments that are potentially required to be recorded in the interim condensed consolidated financial statements in relation to this matter.

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 disclaimer of conclusion **(continued)**

3. As disclosed in note 9, as of 30 September 2021, the Group has a past due Wakala contract receivable of 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 the interim condensed consolidated financial statements. In our judgement, an additional provision of USD 6,670 thousand is required against the Wakala contract receivable.

4. As disclosed in note 11, the Group obtained funding of USD 13,241 thousand as an unrestricted Wakala payable, related to the matter referred to in paragraph 3 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 who, on 20 May 2021, issued a judgement based on which the Group has been ordered to pay USD 13,391 thousand maturity proceeds, USD 916 thousand late payment charges, a daily penalty charge of USD 1,375 from the date of the judgement until final settlement and USD 789 thousand of arbitration costs. The Group has not made the required accrual of USD 1,888 thousand for the late payment charges, daily penalty charges and arbitration costs in the accompanying interim condensed consolidated financial statements.

5. 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 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 USD 15,466 thousand against which management has provided USD 3,515 thousand as at 30 September 2021. We have been unable to obtain sufficient corroborative evidence to support the adequacy of management's provision of USD 3,515 thousand. Additionally, the Group has not accounted for its share of a potential liability from another project company of USD 110 thousand arising from final judgment subject to execution.

6. The Group holds, directly and indirectly (through investment in an associate), an investment of USD 2,034 thousand for which management has determined the fair value based on an internal valuation. However, based on our review procedures, we concluded that this investment has no fair value. Further, the Group has not accounted for its share of a potential liability of USD 887 thousand arising from a guarantee issued in favor of the investee company's lender and other legal claims.

7. The Group's investments comprise a mudaraba investment carried at fair value through equity of USD 9,356 thousand for which we were unable to obtain sufficient corroborative evidence to support the internal valuation performed by management.

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

Disclaimer of Conclusion

Due to the significance of the matters described in the Basis for Disclaimer of Conclusion paragraph, we were unable to obtain sufficient appropriate evidence to form a conclusion on the accompanying interim condensed consolidated financial statements. Accordingly, we do not express a conclusion on these interim condensed consolidated financial statements of the Group.

Ernst + Young

20 October 2022
Manama, Kingdom of Bahrain

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2021 (Reviewed)

	Note	***30 September 2021 USD '000***	*30 June 2021 USD '000*
ASSETS			
Balances with banks	8	**472**	282
Investments		**34,705**	35,014
Investment in an associate		**219**	301
Murabaha financing to investee companies		**-**	77
Wakala contract receivable	9	**6,670**	6,670
Receivables		**2,974**	2,974
Funding to project companies		**2,290**	2,490
Other assets	10	**756**	847
Right-of-use asset		**3,122**	3,154
Property and equipment		**4,547**	4,625
TOTAL ASSETS		**55,755**	56,434
LIABILITIES			
Islamic financing payables	11	**14,241**	13,241
Employee accruals		**1,013**	1,148
Ijarah liability		**3,264**	3,281
Other liabilities	12	**33,278**	33,056
Total liabilities		**51,796**	50,726
EQUITY			
Share capital		**190,000**	190,000
Statutory reserve		**5,859**	5,859
Investment fair value reserve		**262**	262
Accumulated losses		**(192,162)**	(190,413)
Total equity		**3,959**	5,708
TOTAL LIABILITIES AND EQUITY		**55,755**	56,434
OFF-BALANCE SHEET ITEMS			
Equity of investment account holders		**132**	136

Abdulfatah Mohd. Rafie Marafie
Chairman

Mohammed Ahmed Jumaan
Board Member

INTERIM CONSOLIDATED STATEMENT OF INCOME

Three month period ended 30 September 2021 (Reviewed)

		Three-months ended 30 September	
		2021	*2020*
	Note	***USD '000***	*USD '000*
REVENUE			
Income from investment banking services - net		**71**	-
Loss on sale of investments		**-**	(60)
Rental and other income	13	**431**	1,009
Total revenue		**502**	949
OTHER LOSSES			
Fair value losses on investments carried at fair value through income - net		**(288)**	(23)
		214	926
EXPENSES			
Staff costs		**577**	742
Legal and professional fees		**313**	350
Finance expense		**40**	1,128
Depreciation		**110**	113
Other expenses	14	**753**	1,087
Total expenses		**1,793**	3,420
LOSS BEFORE IMPAIRMENT PROVISIONS AND SHARE OF LOSS OF AN ASSOCIATE		**(1,579)**	(2,494)
Impairment of investments		**(40)**	(177)
Provision for credit losses	5	**(48)**	(5,985)
Share of loss of an associate - net		**(82)**	-
NET LOSS FOR THE PERIOD		**(1,749)**	(8,656)

Abdulfatah Mohd. Rafie Marafie Chairman	Mohammed Ahmed Jumaan Board Member

The attached notes 1 to 16 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Three month period ended 30 September 2021 (Reviewed)

	Share capital USD '000	*Statutory reserve USD '000*	*Investment fair value reserve USD '000*	*Foreign currency translation reserve USD '000*	*Accumulated losses USD '000*	*Total USD '000*
Balance at 1 July 2021	190,000	5,859	262	-	(190,413)	5,708
Net loss for the period	-	-	-	-	(1,749)	(1,749)
Balance at 30 September 2021	**190,000**	**5,859**	**262**	**-**	**(192,162)**	**3,959**
Balance at 1 July 2020	190,000	5,859	-	(167)	(174,652)	21,040
Net loss for the period	-	-	-	-	(8,656)	(8,656)
Balance at 30 September 2020	190,000	5,859	-	(167)	(183,308)	12,384

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Three month period ended 30 September 2021 (Reviewed)

	Note	**2021 USD '000**	2020 USD '000
OPERATING ACTIVITIES			
Net loss for the period		**(1,749)**	(8,656)
Adjustments for:			
Impairment of investments		**40**	177
Provision for credit losses	5	**48**	5,985
Share of loss of an associate - net		**82**	-
Fair value losses on investments carried at fair value through income - net		**288**	23
Loss on sale of investments		**-**	60
Depreciation		**110**	113
Finance cost on right-of-use asset		**40**	9
Operating losses before changes in operating assets and liabilities		**(1,141)**	(2,289)
Changes in operating assets and liabilities:			
Investments		**(19)**	(615)
Receivables		**38**	-
Funding to project companies		**207**	544
Other assets		**(2)**	(8)
Employee accruals		**(135)**	(9)
Islamic financing payables		**1,000**	1,122
Other liabilities		**460**	400
Proceeds from sale of investment		**-**	1,106
Net cash from operating activities		**408**	251
FINANCING ACTIVITIES			
Murabaha financing to investee company		**(161)**	286
Rent paid towards right-of-use asset		**(57)**	(21)
Net cash (used in) / from financing activities		**(218)**	265
NET INCREASE IN CASH AND CASH EQUIVALENTS		**190**	516
Cash and cash equivalents at beginning of the period		**282**	505
ECL charged on balances with banks	5	**-**	(2)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**472**	1,019
Cash and cash equivalents per the consolidated statement of financial position			
Balances with banks	8	**472**	1,019

The attached notes 1 to 16 form part of these interim condensed consolidated financial statements.

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

Three month period ended 30 September 2021 (Reviewed)

30 September 2021	***Balance at 1 July 2021 USD '000***	***Movements during the period***		***Balance at 30 September 2021 USD '000***
		Fair value movement USD '000	***Net income USD '000***	
GCC Pre IPO Fund	**136**	**(4)**	**-**	**132**
Investment in equities				**88**
Other receivables				**42**
Balances with banks				**2**
Total				**132**

30 September 2020	*Balance at 1 July 2020 USD '000*	*Movements during the period*		*Balance at 30 September 2020 USD '000*
		Fair value movement USD '000	*Net Income USD '000*	
GCC Pre IPO Fund	1,118	10	97	1,225
Investment in equities				975
Other receivables				248
Balances with banks				2
Total				1,225

The GCC Pre-IPO Fund targets investments in selected GCC equities in the pre-IPO stage with the primary objective of benefiting from the potential market gains expected to arise from their IPOs. The investments are legally owned by the Group for the beneficial interest of RIA. Investors nominate the specific equities they wish to participate in from a pool of GCC Pre-IPO equities, specifying the amounts in each, and receive all returns less the Bank's fee of 20% over a 10% simple return.

1 INCORPORATION AND ACTIVITIES

Incorporation

Venture Capital Bank B.S.C. (c) (“the Bank”) was incorporated in the Kingdom of Bahrain on 26 September 2005 as a closed shareholding company under commercial registration (CR) number 58222 issued by the Ministry of Industry, Commerce and Tourism. The Bank is licensed as a wholesale Islamic bank by the Central Bank of Bahrain (“CBB”) and is subject to the regulations and supervision of the CBB. The Bank's registered office is Building 247, Road 1704, Block 317, 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”). The details of the Bank's subsidiaries are disclosed in note 4.2.

These interim condensed consolidated financial statements were approved by the Bank's Board of Directors on 18 September 2022.

2 FUNDAMENTAL ACCOUNTING ASSUMPTION

The Group incurred a net loss of USD 1,749 thousand (30 September 2020: net loss of USD 8,656 thousand) during the period ended 30 September 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 14,089 thousand (30 June 2021: USD 20,705 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 ("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. In order to address these requirements, the Group had taken the following actions:

- On 30 November 2020, an EGM was held where the shareholders resolved to restructure the Group’s capital to bring it back into compliance with the BCCL requirements by reducing the share capital by USD 167,704 thousand after writing off accumulated losses of USD 173,563 thousand and reducing statutory reserve by USD 5,859 thousand. The effect of this capital reduction has not been effectuated by the MOICT in the Group's share register nor has this effect been reflected in these interim condensed financial statements;
- An EGM was held on 8 December 2021, where it was resolved to incorporate further adjustments in the Group's capital against its accumulated losses where share capital was proposed to be reduced further by USD 16,273 thousand after writing off accumulated losses of same amount. The impact of this and the previous capital restructure was not reflected in the Group’s interim condensed consolidated financial statements due to a resolution approved by shareholders at a subsequent EGM to nullify the effects of these resolutions in favor of a new capital restructuring plan; and
- On 21 April 2022, an EGM was held where it was resolved to adjust Group's capital against its accumulated losses where share capital was proposed to be reduced by USD 189,995 thousand after writing off accumulated losses of USD 190,413 thousand and reducing statutory reserve by USD 418 thousand. Additionally, the EGM also resolved to introduce a strategic investor, Esterad Investment Company B.S.C. (c), as a new shareholder with a contribution of USD 1 million as paid-up capital and acquiring 99.50% ownership of the Group. The impact of this capital restructure will be reflected in the Group’s interim condensed consolidated financial statements once MOICT approval is received.

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 USD 789 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.

On 19 September 2022, the Bank entered into a settlement agreement with one of its creditors to restructure its obligations. The agreement is conditional on the closing of acquisition by the strategic investor which is expected to complete by 31 December 2022.

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 15,467 thousand (30 June 2021: USD 15,232 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 3,515 thousand is maintained by the Bank considering the net exposure of the Bank to the company's obligations after accounting for the independent value of the company's operations.

The above capital restructuring process, including acquisition by a strategic investor 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 30 September 2021.

3 REGULATORY NON-COMPLIANCE

The Bank did not comply with the following CBB requirements during the period ended 30 September 2021:

- Total shareholders' equity amounted USD 3,959 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 0.88%, 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 0.50%, 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 7%, 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.

3 REGULATORY NON-COMPLIANCE (continued)

Due to breach in CBB's capital adequacy requirements, the CBB has imposed certain restrictions on the Bank's investment banking activities where the Bank is prohibited from undertaking any new investment exposure without CBB's prior approval. While the CBB continues to closely monitor the Bank's overall operations, these restrictions do not apply to the bank's existing banking activities and exposures. The Bank has initiated various actions, including increasing capital, exit from existing investments and re-licensing the Bank in order to regain compliance and restart new business activity.

As of the date of these interim condensed consolidated financial statements, there were restrictions imposed on the Bank's balances with banks resulting from a pending legal case. The management is actively working on having these restrictions removed. Due to restrictions imposed on the Group's accounts with banks, the Group uses the bank accounts of its wholly owned subsidiaries to hold and route funds related to its own operations.

4 BASIS OF PREPARATION AND ACCOUNTING POLICIES

4.1 Basis of preparation

The interim condensed consolidated financial statements for the three month period ended 30 September 2021 has 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 2021. In addition, results for the three-months ended 30 September 2021 are not necessarily indicative of the results that may be expected for the financial year ending 30 June 2022.

The annual consolidated financial statements for the year ended 30 June 2021 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 three month period ended 30 September 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 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.

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.

4 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

4.2 Basis of consolidation (continued)

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 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	54.06%	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.
VCB Investment Advisors LTD	2006	100%	Cayman Islands	A special purpose vehicle incorporated in Cayman Island for collection of management fees - Dormant entity.

* 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.

** As of 30 September 2021, the Group's investment in Food Vest Holding W.L.L. is not consolidated on a line by line basis as the Group was undergoing regulatory formalities to dispose of this entity. Subsequent to 30 September 2021, the Group has disposed this entity.

The carrying value of these unconsolidated subsidiaries currently classified under Investments as held for sale amounted to USD 9,540 thousand as at 30 September 2021 (30 June 2021: USD 9,698 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 New and amended standards and interpretations issued but not yet effective

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 2021, except for the following new standards and interpretations issued but not yet effective on or after 1 January 2023.

FAS 1 (Revised 2021) - General Presentation and Disclosures in the Financial Statements

AAOIFI has issued revised FAS 1 in 2021. The revised FAS 1 supersedes the earlier FAS 1 General Presentation and Disclosures in the Financial Statements of Islamic Banks and Financial Institutions and introduces the concepts of quasi-equity, off-balance-sheet asset assets under management and other comprehensive income to enhance the information provided to the user of the financial statements. The standard shall be effective for the financial periods beginning on or after 1 January 2023 with early adoption permitted.

FAS 37 Financial Reporting by Waqf Institutions

AAOIFI issued FAS 37 “Financial Reporting by Waqf Institutions” in 2020. The objective of the standard is to establish principles of financial reporting by Waqf institutions, which are established and operated in line with Shari’ah principles and rules. This standard shall be effective for the financial periods beginning on or after 1 January 2022 with early adoption permitted.

4 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

4.4 New and amended standards and interpretations issued but not yet effective (continued)

FAS 38 Wa'ad, Khiyar and Tahawwut

AAOIFI issued FAS 38 "Wa'ad, Khiyar and Tahawwut" in 2020. The objective of this standard is to prescribe the accounting and reporting principles for recognition, measurement and disclosures in relation to Shari'ah compliant Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions (the institutions). This standard shall be effective for the financial periods beginning on or after 1 January 2022 with early adoption permitted.

FAS 39 - Financial Reporting for Zakah

AAOIFI has issued FA 39 in 2021. This standard improves upon and supersedes FAS 9 on "Zakah" and aims at setting out the accounting treatment of Zakah in the books of the institutions, including the presentation and disclosure by an Islamic financial institution. The accounting and financial reporting requirements such as recognition, presentation and disclosure requirements of this standards shall apply to institutions that are obliged to pay Zakah on behalf of certain or all stakeholders. Institutions that are not obliged to pay Zakah shall apply the disclosure requirements of this standard for certain or all stakeholders as relevant. This standard shall be effective for the financial periods beginning on or after 1 January 2023 with early adoption permitted.

FAS 40 - Financial Reporting for Islamic Windows

AAOIFI has issued FAS 40 in 2021. The objective of this revised standard is to establish financial reporting requirements for Islamic finance windows and applicable to all financial institutions providing Islamic financial services through an Islamic finance window. This standard improves upon and supersedes FAS 18 "Islamic Financial Services Offered by Conventional Financial Institutions". This standard shall be effective for the financial periods beginning on or after 1 January 2024.

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 30 September 2021, the Group's bank balances amounted to USD 472 thousand and there was a short-term maturity mismatch (current liabilities in excess of current assets) of USD 14,089 thousand (30 June 2021: USD 20,705 thousand).

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 30 September 2021.

5 IMPAIRMENT OF FINANCIAL ASSETS

Financial contracts consist of balances 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 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:

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.

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.

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:

	30 September 2021 (Reviewed)			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
	USD '000	***USD '000***	***USD '000***	***USD '000***
Exposures subject to ECL				
Balances with banks	472	-	158	630
Murabaha financing to investee companies	-	-	1,511	1,511
Wakala contract receivable	-	-	13,341	13,341
Receivables	-	557	9,455	10,012
Funding to project companies	-	3,271	1,130	4,401
Other assets	164	1,562	9,215	10,941
	636	**5,390**	**34,810**	**40,836**
Guarantees and commitments	4,147	11,220	26,835	42,202
	4,783	**16,610**	**61,645**	**83,038**

5 IMPAIRMENT OF FINANCIAL ASSETS (continued)

Stage 3: Lifetime ECL – credit impaired (continued)

	30 June 2021 (Audited)			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	USD '000	*USD '000*	*USD '000*	*USD '000*
Exposures subject to ECL				
Balances with banks	282	-	158	440
Murabaha financing to investee companies	-	-	1,350	1,350
Wakala contract receivable	-	-	13,341	13,341
Receivables	-	557	9,493	10,050
Funding to project companies	-	3,295	1,313	4,608
Other assets	150	1,718	9,071	10,939
	432	5,570	34,726	40,728
Guarantees and commitments	4,147	11,390	26,838	42,375
	4,579	16,960	61,564	83,103

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

	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	USD '000	***USD '000***	***USD '000***	***USD '000***
Balance at 1 July 2021				
Balances with banks	-	-	(158)	(158)
Murabaha financing to investee companies	-	-	(1,273)	(1,273)
Wakala contract receivable	-	-	(6,671)	(6,671)
Receivables	-	(17)	(7,059)	(7,076)
Funding to project companies	-	(988)	(1,130)	(2,118)
Other assets	-	(1,101)	(8,991)	(10,092)
Guarantees and commitments	(10)	(29)	(15,121)	(15,160)
	(10)	**(2,135)**	**(40,403)**	**(42,548)**
Reversal / (charge) during the period				
Balances with banks	-	-	-	-
Murabaha financing to investee companies	-	-	(238)	(238)
Wakala contract receivable	-	-	-	-
Receivables	-	-	38	38
Funding to project companies	-	7	-	7
Other assets	-	(25)	(68)	(93)
Guarantees and commitments	-	-	238	238
	-	**(18)**	**(30)**	**(48)**
Balance at 30 September 2021				
Balances with banks	-	-	(158)	(158)
Murabaha financing to investee companies	-	-	(1,511)	(1,511)
Wakala contract receivable	-	-	(6,671)	(6,671)
Receivables	-	(17)	(7,021)	(7,038)
Funding to project companies	-	(981)	(1,130)	(2,111)
Other assets	-	(1,126)	(9,059)	(10,185)
Guarantees and commitments	(10)	(29)	(14,883)	(14,922)
As at 30 September 2021	**(10)**	**(2,153)**	**(40,433)**	**(42,596)**

During the three-month period ended 30 September 2021, an exposure amounting to USD 72 thousand relating to 'Other assets' have been transferred from stage 2 to stage 3.

5 IMPAIRMENT OF FINANCIAL ASSETS (continued)

Stage 3: Lifetime ECL – credit impaired (continued)

	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	USD '000	***USD '000***	***USD '000***	***USD '000***
Balance at 1 July 2020				
Balances 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 with banks	(2)	-	-	(2)
Murabaha financing to investee companies	-	299	(260)	39
Wakala contract receivable	-	-	-	-
Receivables	-	-	-	-
Funding to project companies	-	97	-	97
Other assets	-	-	(1)	(1)
Guarantees and commitments	-	2	(6,120)	(6,118)
	(2)	**398**	**(6,381)**	**(5,985)**
Balance at 30 September 2020				
Balances with banks	(3)	-	(158)	(161)
Murabaha financing to investee companies	-	(271)	(914)	(1,185)
Wakala contract receivable	-	-	(6,671)	(6,671)
Receivables	(59)	(4)	(8,388)	(8,451)
Funding to project companies	-	(1,069)	(931)	(2,000)
Other assets	(203)	(1,310)	(9,066)	(10,579)
Guarantees and commitments	(10)	(938)	(6,120)	(7,068)
	(275)	**(3,592)**	**(32,248)**	**(36,115)**

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 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, the Shari'a supervisory board and external auditors. Pricing policies and terms of these transactions are approved by the Group's management.

7 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Balances with related parties are as follows:

	Reviewed 30 September 2021 USD '000	*Audited 30 June 2021 USD '000*
Assets:		
Investments	**11,040**	11,322
Investment in an associate	**219**	301
Other assets	**73**	-
Liabilities:		
Employee accruals	**662**	621
Islamic financing payables	**1,000**	-
Other liabilities	**4,843**	4,578
Commitments and contingencies	**805**	975

Transactions with related parties during the period were as follows:

	Reviewed Three-months ended	
	30 September 2021 USD '000	*30 September 2020 USD '000*
Other losses		
Fair value losses on investments carried at fair value through income - net	**(124)**	-
Expenses		
Legal and professional fees	**54**	55
Board members and Shariah board fees (other expenses)	**115**	83
Other expenses	**108**	186
Provision for credit losses	**(18)**	-
Share of loss of an associate - net	**(82)**	(5)

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

	Reviewed Three-months ended	
	30 September 2021 USD '000	*30 September 2020 USD '000*
Salaries and other short term benefits	**134**	134
Post-employment benefits	**27**	8
	161	142

8 BALANCES WITH BANKS

	Reviewed 30 September 2021 USD '000	*Audited 30 June 2021 USD '000*
Balances in current and call accounts	**630**	440
Less: ECL provision	**(158)**	(158)
Net cash and cash equivalents	**472**	282

As of the date of these interim condensed consolidated financial statements, there were restrictions imposed on the Bank's balances with banks resulting from a pending legal case. The management is actively working on having these restrictions removed. Due to restrictions imposed on the Group's accounts with banks, the Group uses the bank accounts of its wholly owned subsidiaries to hold and route funds related to its own operations.

9 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% (30 June 2020: 50%) under stage 3 amounting to USD 6,671 thousand (30 June 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 13,341 thousand.

10 OTHER ASSETS

	Reviewed 30 September 2021 USD '000	*Audited 30 June 2021 USD '000*
Advances to acquire investments	**6,295**	6,295
Project costs recoverable	**2,251**	2,165
Dividend receivable	**444**	124
Other receivables	**1,951**	2,355
	10,941	10,939
Less: ECL provision	**(10,185)**	(10,092)
	756	847

11 ISLAMIC FINANCING PAYABLES

Short-term Islamic payables:	Note	***Reviewed 30 September 2021 USD '000***	*Audited 30 June 2021 USD '000*
Murabaha payable		**1,000**	-
Wakala payable to financial institution	11.1	**13,241**	13,241
		14,241	13,241

11.1 The Group is undergoing a legal case to net off the payable amount to a local bank against the Wakala contract receivable. 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 1,099 thousand, and arbitration costs of USD 789 thousand, for which the Group has not made accruals of USD 1,888 thousand in the interim condensed consolidated financial statements.

12 OTHER LIABILITIES

	Reviewed 30 September 2021 USD '000	*Audited 30 June 2021 USD '000*
Accounts payable	**6,978**	6,417
Provisions and accruals	**690**	602
Deferred income	**1,182**	1,221
Provision against guarantees *	**14,922**	15,160
Payable under settlement agreement **	**9,261**	9,261
Other	**245**	395
	33,278	33,056

* Guarantees relate to corporate guarantees provided by the Group to various creditors to support financing to one of its project companies. The Group received certain legal claims 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 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 14,883 thousand (30 June 2021: USD 15,121 thousand). The Group has partially settled its concluded litigations during the period.

** Amount payable under settlement agreement represents past due profits on Islamic financing payable settled as of 30 June 2021. The amount is due on 30 June 2025.

13 RENTAL AND OTHER INCOME

	Reviewed Three-months ended	
	30 September 2021	*30 September 2020*
	USD '000	*USD '000*
Rental income	**317**	295
Other	**114**	714
	431	1,009

14 OTHER EXPENSES

	Reviewed Three-months ended	
	30 September 2021	*30 September 2020*
	USD '000	*USD '000*
Office expenses	**355**	363
Publicity, conferences and promotion	**23**	4
Board of directors and Shari'ah supervisory board fees and expenses	**115**	70
Exchange loss	**5**	14
Project management costs	**239**	608
Other	**16**	28
	753	1,087

15 COMMITMENTS AND CONTINGENCIES

The Group has outstanding letters of guarantee in respect of projects, and commitments to finance and invest as follows:

	Reviewed	*Audited*
	30 September 2021	*30 June 2021*
	USD '000	*USD '000*
Letters of guarantee *	**31,807**	31,980
Commitments to invest	**10,395**	10,395
	42,202	42,375

* As at 30 September 2021, the Group has a provision amounting to USD 14.9 million (30 June 2021: 15.1 million) on the outstanding letters of guarantee.

16 FINANCIAL INSTRUMENTS

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

	30 September 2021 (Reviewed)			
	Equity-type at fair value through income USD '000	***Equity-type at fair value through equity USD '000***	***Amortised cost USD '000***	***Total USD '000***
ASSETS				
Balances with banks	**-**	**-**	**472**	**472**
Investments	**21,342**	**13,363**	**-**	**34,705**
Murabaha financing to investee companies	**-**	**-**	**-**	**-**
Wakala contract receivable	**-**	**-**	**6,670**	**6,670**
Receivables	**-**	**-**	**2,974**	**2,974**
Funding to project companies	**-**	**-**	**2,290**	**2,290**
Other assets	**-**	**-**	**685**	**685**
TOTAL FINANCIAL ASSETS	**21,342**	**13,363**	**13,091**	**47,796**
LIABILITIES				
Islamic financing payables	**-**	**-**	**14,241**	**14,241**
Other liabilities	**-**	**-**	**16,239**	**16,239**
TOTAL FINANCIAL LIABILITIES	**-**	**-**	**30,480**	**30,480**
Off-balance sheet				
Equity of investment account holders	**-**	**88**	**44**	**132**

	30 June 2021 (Audited)			
	Equity-type at fair value through income USD '000	*Equity-type at fair value through equity USD '000*	*Amortised cost USD '000*	*Total USD '000*
ASSETS				
Balances with banks	-	-	282	282
Investments	21,630	13,384	-	35,014
Murabaha financing to investee companies	-	-	77	77
Wakala contract receivable	-	-	6,670	6,670
Receivables	-	-	2,974	2,974
Funding to project companies	-	-	2,490	2,490
Other assets	-	-	710	710
TOTAL FINANCIAL ASSETS	21,630	13,384	13,203	48,217
LIABILITIES				
Islamic financing payables	-	-	13,241	13,241
Other liabilities	-	-	15,678	15,678
TOTAL FINANCIAL LIABILITIES	-	-	28,919	28,919
Off-balance sheet				
Equity of investment account holders	-	92	44	136

16 FINANCIAL INSTRUMENTS (continued)

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

30 September 2021	***Level 1 USD '000***	***Level 2 USD '000***	***Level 3 USD '000***	***Total USD '000***
Investments:				
Held for trading	**9**	**-**	**-**	**9**
Equity-type at fair value through income	**-**	**-**	**21,333**	**21,333**
Equity-type at fair value through equity	**-**	**-**	**13,363**	**13,363**
	9	**-**	**34,696**	**34,705**

30 June 2021	*Level 1 USD '000*	*Level 2 USD '000*	*Level 3 USD '000*	*Total USD '000*
Investments:				
Held for trading	9	-	-	9
Equity-type at fair value through income	-	-	21,621	21,621
Equity-type at fair value through equity	-	-	13,384	13,384
	9	-	35,005	35,014

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 10.5% to 14.32%. 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.

16 FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

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 362 thousand, whereas a 10% decrease in the discount rate would increase the fair values by approximately USD 542 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 1,147 thousand or reduce the fair values by approximately USD 1,101 thousand respectively.

Investments amounting to USD 13,363 thousand (30 June 2021: USD 13,384 thousand) are carried at fair value through equity that shall be tested for impairment at each reporting period in accordance with FAS 30 “Impairment, credit losses and onerous commitments”.

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