

Venture Capital Bank B.S.C. (c)
SHARI'A SUPERVISORY BOARD REPORT,
CHAIRMAN'S STATEMENT,
INDEPENDENT AUDITORS' REPORT
AND CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019

Report of the Shari'ah Supervisory Board for period from 01/07/2018 to 30/06/2019

Praise be to Allah, and peace be upon our Messenger, his family companions and allies.

In compliance with the letter of appointment, we are required to submit the following report:

The Shari'ah Supervisory Board of Venture Capital Bank has reviewed all the business and investments of the Bank in its meetings for the period from 01/07/2018 to 30/06/2019.

It has studied and discussed, with the Bank's management, the financial statements and the income statement for the period from 01/07/2018 to 30/06/2019.

It should be noted that it is the responsibility of the Bank's management to ensure that the Bank is working in compliance with Shari'ah principles, while the responsibility of the Shari'ah Supervisory Board is limited to give an independent opinion based on monitoring the Bank's operations and preparing the report to be submitted to you.

Through continuous reviewing and monitoring of the Bank's business, the Shari'ah Supervisory Board finds that the business, activities, investments and projects made by the Bank in general are compliant with the principles of Islamic Shari'ah. The SSB have directed the bank to exit some historical investments, in which we found some non-Shari'ah compliance, knowing that those investments are old and not new and should be exited as soon as possible. SSB were informed that bank's management endeavored to comply with this decision, however due to market circumstance and local and international changes they weren't able to achieve the requirement during the year 2018-2019.

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

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

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

Accordingly, as the Shari'ah Supervisory Board issues its report to confirm the legitimacy of the business, investments, funds, and statements of Venture Capital Bank during this year as been presented.

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

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

We praise to Allah the Lord of the worlds.



Abdulsattar Abu Ghodah
Shariah Member



Nidham Bin Mohammed Saleh Yaqoobi
Chairman, Shariah Supervisory Board



Issa Zaki
Shariah Member

Executed on Sunday, 16/01/1441 H, corresponding to the 15/09/2019



CHAIRMAN'S STATEMENT

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

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of Venture Capital Bank (VCBank) for the fiscal year ended 30 June 2019. As anticipated, this proved to be another highly challenging period for the regional investment banking industry.

The year witnessed elevated economic and market uncertainty; further oil price volatility; and heightened geopolitical tensions, especially at a regional level. There was also growing concern over the escalating global trade war, and the lack of a Brexit deal. These constitute some of the main factors that continued to impact negatively on investor sentiment.

In light of this challenging environment, the Board and Executive Management held its annual strategic workshop to review and realign the Bank's investment strategy. Portfolio companies were subjected to investment stress testing and analysis to ensure the most realistic valuations in current market conditions; while further steps were taken to speed up the exit from several legacy projects that have been affected by financial, economic, market or geopolitical issues, and which involve considerable administrative time and effort by Management, and the Investment and Post-Acquisition teams. Despite the muted investment environment during the year, it is encouraging to note that VCBank successfully completed its fourth acquisition and first exit in the resilient US multifamily property sector.



In the best interests of shareholders and investors, the Board and the management decided to cancel the Mado acquisition in Turkey, due to the continuing political uncertainty and currency volatility that were adversely affecting the operations and investment prospects of the company. Accordingly, the Bank has reversed the USD 16.4 million gain previously recognized related to the acquisition. Further, in light of continuing challenges with respect to current market conditions, and to pave the way for the Bank to return to growth with less issues relating to the legacy investment portfolio, the Board decided to minimize the potential of future impairments and fair value losses in order to protect the balance sheet and provide a faithful presentation of the Bank's financial position going forward. Accordingly, we booked impairment provisions and fair value losses totaling USD 35.07 million during the year, which resulted in the Bank reporting a loss of USD 58.18 million for fiscal year 2019.

The Board fully recognises the need to continue improving our cost management, and analysing the effects of a stricter regulatory regime under Basel IV. These are critical success factors in meeting our objective to return the Bank to profitability and enhance returns to shareholders, while protecting the interests of all stakeholders.

With the regional investment banking industry undergoing another paradigm shift – probably the most significant since the financial crisis a decade ago – the Board and Management studied how other Bahrain-domiciled investment banks are transforming their operating models and changing their regulatory licensing status, to determine if such measures are relevant for VCBank.

In this respect, it should be noted that VCBank is primarily an alternative asset manager focused on revenue-generating real estate investments, greenfield business opportunities, and very selective private equity transactions. We do



not take deposits or make loans, nor do we engage in capital market-related activities. Consequently, the Board and Management consider that conversion from a wholesale banking to an investment business license could be more appropriate for VCBank's business model; especially given the growing administrative burden and associated costs of a more stringent regulatory regime covering areas such as liquidity, risk management and capital adequacy.

Following favourable initial discussions with the CBB, we appointed a specialist advisory firm to conduct an impact assessment analysis. Based on their report, the Board will make appropriate recommendations concerning the future direction of the Bank to shareholders for their consideration and approval.

During the year, there were some changes to the composition of the Board of Directors. I would like to welcome Mr. Adel Mohammed Abu Nayyan, who was elected as an independent and non-executive Director in October 2018. His extensive experience in business and investments will greatly benefit the Board. In turn, I would like to thank the three outgoing Directors – Mr. Yasir Mohammed Al Jarullah, Mr. Mohammed Saleh Al Athel and Mr. Sulaiman Abdulrahman Al Rashid – for their respective contributions over the past years which are highly appreciated, and wish them well in their future endeavours.

Looking ahead, next year looks set to be another highly-testing and unpredictable period, with a continuation of the same issues that characterised fiscal 2019. However, our decision to book very conservative provisions and post a loss for this year, will enable the Bank to start fiscal 2020 in a much stronger position, supported by a cleaner balance sheet, healthier portfolio, adequate liquidity, and a promising pipeline of potential new investments and targeted exits. Nevertheless, as the Bank continues to find exits for its legacy portfolio in order to generate funds for new



investments, there is the potential for further losses to be realized, as well as possible recoveries, as market conditions evolve.

With full confidence in the ability of Management to maintain our realigned strategic focus and continue to enhance organisational effectiveness and efficiency, the Board remains cautiously optimistic about the Bank's prospects in FY 2020, despite the many challenges and uncertainties that lie ahead.

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

Grateful acknowledgements are also due to the Central Bank of Bahrain, the Ministry of Industry, Commerce & Tourism, and other Government institutions, for their continued professional advice and support during the period.

I would also like to express my gratitude to our shareholders, clients and business partners for their enduring loyalty and confidence; and to our Shari'ah Supervisory Board for its ongoing guidance and supervision. I also pay special tribute to the Bank's management and staff for their highly-valued dedication and professionalism in yet another challenging year.

May Allah guide us on the proper path, and lead us to the realisation of our goals for the future success of the Bank.

Abdulfatah Mohammed Rafie Marafie
Chairman of the Board

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

Report on the Audit of Consolidated Financial Statements

We have audited the accompanying consolidated statement of financial position of Venture Capital Bank B.S.C. (c) (the "Bank") and its subsidiaries (the "Group") as of 30 June 2019, and the related consolidated statements of income, changes in equity, cash flows and changes in off-balance sheet equity of investment account holders for the year then ended, and a summary of significant accounting policies and other explanatory information. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 30 June 2019, the results of its consolidated operations, its consolidated cash flows, consolidated changes in equity and changes in off-balance sheet equity of investment account holders for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

Material uncertainty related to going concern

Without qualifying our opinion, we draw attention to note 2 to these consolidated financial statements. During the year ended 30 June 2019, the Group incurred a net loss of USD 58,181 thousand, and as of that date, the Group's total liabilities with maturity up to 12 months exceeded its total assets with the same maturity representing a net liquidity gap of USD 47,169 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.

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

Report on Other Regulatory Requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain ("CBB") Rule Book (Volume 2), we report that:

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and
- b) the financial information contained in the Chairman's statement is consistent with the consolidated financial statements.

Except for matters discussed in note 3, we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association during the year ended 30 June 2019 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.



Partner's registration no. 45
12 December 2019
Manama, Kingdom of Bahrain

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	30 June 2019 USD '000	30 June 2018 USD '000
ASSETS			
Balances and placements with banks	9	10,175	7,326
Investments	10	110,982	151,516
Investments in associates and joint venture accounted under the equity method	11	22,701	26,666
Murabaha financing to investee companies	12	30,406	38,597
Wakala contract receivable	13	10,672	-
Receivables	14	1,976	33,420
Funding to project companies	15	5,693	3,025
Other assets	16	26,678	23,795
Property and equipment	17	7,480	7,816
TOTAL ASSETS		226,763	292,161
LIABILITIES			
Islamic financing payables	18	109,692	109,155
Employee accruals		1,440	2,092
Other liabilities	19	13,145	15,456
Total liabilities		124,277	126,703
EQUITY			
Share capital	20	190,000	190,000
Statutory reserve	20	5,859	5,859
Foreign currency translation reserve		(71)	(71)
Accumulated losses		(93,302)	(30,330)
Total equity		102,486	165,458
TOTAL LIABILITIES AND EQUITY		226,763	292,161
OFF BALANCE SHEET ITEMS			
Equity of investment account holders		1,887	2,106



Abdulfatah Mohd. Rafie Marafie
Chairman



Abdullatif M. Janahi
Board Member
and Chief Executive Officer

The attached notes 1 to 38 form part of these consolidated financial statements.

Venture Capital Bank B.S.C. (c)
CONSOLIDATED STATEMENT OF INCOME
For the year ended 30 June 2019

	Note	30 June 2019 USD '000	30 June 2018 USD '000
REVENUE			
Income from investment banking services - net	21	2,153	1,218
Gain on sale of investment	22	1,133	6,338
Finance income	23	4,072	4,785
Dividend income		1,400	1,406
Rental and other income	24	1,786	2,447
Total revenue		10,544	16,194
OTHER LOSSES			
Fair value losses on investments carried at fair value through profit or loss - net	25	(35,069)	(3,833)
Total (loss) income		(24,525)	12,361
EXPENSES			
Staff costs	26	7,061	5,745
Travel and business development expenses		427	431
Legal and professional fees		790	773
Finance expense	23	5,369	5,623
Depreciation	17	342	385
Other expenses	28	3,645	3,026
Total expenses		17,634	15,983
LOSS BEFORE IMPAIRMENT PROVISIONS AND SHARE OF LOSSES OF ASSOCIATES AND JOINT VENTURE		(42,159)	(3,622)
Provisions for credit losses - net	27	(15,963)	(1,492)
Share of losses of associates and joint venture - net	11	(59)	(132)
NET LOSS FOR THE YEAR		(58,181)	(5,246)



Abdulfatah Mohd. Rafie Marafie
Chairman



Abdullatif M. Janahi
Board Member
and Chief Executive Officer

The attached notes 1 to 38 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	30 June 2019 USD '000	30 June 2018 USD '000
	<i>Note</i>	
OPERATING ACTIVITIES		
Net loss for the year	(58,181)	(5,246)
Adjustments for non-cash items:		
Gain on sale of investments	22 (1,133)	(5,263)
Share of results of associates and joint venture accounted under the equity method	11 59	132
ECL charged on balances and placement with banks	3.4.1 7	-
Provisions for credit losses - net	27 15,963	1,492
Depreciation	17 342	385
Dividend income	(1,400)	(1,406)
Fair value losses on investments carried at fair value through profit or loss - net	25 35,069	3,833
Operating loss before changes in operating assets and liabilities	(9,274)	(6,073)
Changes in operating assets and liabilities:		
Investments	4,381	10,756
Investments in associates and joint venture accounted under the equity method	(53)	(192)
Murabaha financing to investee companies	1,287	(3,847)
Wakala contract receivable	(13,340)	-
Receivables	27,638	(16,790)
Funding to project companies	(4,386)	(3,025)
Other assets	(3,152)	3,695
Employee accruals	(652)	(631)
Other liabilities	(2,410)	7,546
Net cash from (used in) operating activities	39	(8,561)
INVESTING ACTIVITIES		
Dividends received	2,304	900
Property and equipment - net	17 (6)	(124)
Net cash from investing activities	2,298	776
FINANCING ACTIVITY		
Islamic financing payables	537	7,481
Net cash from financing activity	537	7,481
Foreign currency translation adjustments	-	59
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,874	(245)
Cash and cash equivalents at beginning of the year	7,326	7,571
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	10,200	7,326
Comprising:		
Balances in current and call accounts	9 7,330	5,285
Short-term placements	9 2,870	2,041
	10,200	7,326

The attached notes 1 to 38 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

	Note	Share capital USD '000	Statutory reserve USD '000	Foreign currency translation reserve USD '000	Accumulated losses USD '000	Total USD '000
Balance at 1 July 2018		190,000	5,859	(71)	(30,330)	165,458
Transition adjustment on adoption of FAS 30 as of 1 July 2018		-	-	-	(4,791)	(4,791)
Restated balance as of 1 July 2018		190,000	5,859	(71)	(35,121)	160,667
Net loss for the year		-	-	-	(58,181)	(58,181)
Balance at 30 June 2019		190,000	5,859	(71)	(93,302)	102,486
Balance at 1 July 2017		190,000	5,859	(130)	(25,084)	170,645
Net loss for the year		-	-	-	(5,246)	(5,246)
Foreign currency translation difference on investment in an associate	11	-	-	59	-	59
Balance at 30 June 2018		190,000	5,859	(71)	(30,330)	165,458

The attached notes 1 to 38 form part of these consolidated financial statements.

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

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

For the year ended 30 June 2019

	Balance as at 1 July 2018 USD '000	Movements during the year			Balance as at 30 June 2019 USD '000
		Distribution USD '000	Fair value movement / (impairment) USD '000	Net loss USD '000	
GCC Pre IPO Fund	2,106	(227)	8	-	1,887
	Balance as at 1 July 2017 USD '000	Movements during the year			Balance as at 30 June 2018 USD '000
		Distribution USD '000	Fair value movement / (impairment) USD '000	Net loss USD '000	Bank's fees as an agent USD '000
2018	2,744	(91)	(111)	(436)	-
GCC Pre IPO Fund					
Investment in equities					2018
Dividends receivable					USD '000
Balances with banks					1,821
					64
					2
Total as at 30 June					1,887
					2,106

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

1 INCORPORATION AND ACTIVITIES

Incorporation

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

Activities

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

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary companies (together, "the Group"). Refer to note 7 for details of the Bank's subsidiaries.

These consolidated financial statements were approved by the Bank's Board of Directors on 28 November 2019.

2 FUNDAMENTAL ACCOUNTING ASSUMPTION

The Group incurred a net loss of USD 58,181 thousand (2018: net loss of USD 5,246 thousand) during the year ended 30 June 2019, 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 47,169 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. Subsequent to year ended 30 June 2019, the following has been taken to bridge the Group's net liquidity gap:

- Sale of vessels pledged as collateral against the Group's Murabaha financing to investee companies for a net consideration of USD 28,779 thousand (refer note 12).
- The Group settled its Islamic financing payable to a locally incorporated Islamic bank amounting to USD 25,764 thousand (refer note 18.2).
- Management is under process of restructuring its Islamic financing payable amounting to USD 70,687 thousand maturing in January 2020. The Group expects to settle 50% and roll over the remaining balance payable for a period of two years.
- Discussions with potential buyers to dispose of investments amounting USD 33.8 million.

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, hence these consolidated financial statements have been prepared on a going concern basis. In the event of distress sale of the Group's asset, their net realisable value might not approximate its fair value as at 30 June 2019.

3 BASIS OF PREPARATION

3.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization (AAOIFI) for Islamic Financial Institutions and in conformity with Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives and the terms of the Bank's memorandum and articles of association except as noted below:

- The Bank's total capital adequacy ratio ("CAR") is 11.12% as of 30 June 2019, which is in breach of the minimum requirement of 12.5% as prescribed under CA-2.2.1, Volume 2 of the CBB rule book.

3 BASIS OF PREPARATION (continued)

3.1 Statement of compliance (continued)

In accordance with the requirements of AAOIFI, for matters which are not covered by AAOIFI standards, the Group uses relevant International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB") provided it does not conflict with the Shari'a Rules and Principles and the conceptual framework of AAOIFI.

3.2 Accounting convention

The consolidated financial statements have been prepared under the historical cost convention as modified for the remeasurement at fair value of investment securities, and are presented in United States Dollars (USD) which is the functional currency of the Group. All values are rounded off to the nearest thousand (USD '000) unless otherwise indicated.

3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries as at 30 June each year. A subsidiary is an entity that the Group has the power to control so as to obtain economic benefits and therefore excludes those held in a fiduciary capacity. The financial statements of the subsidiaries are prepared using consistent accounting policies.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed off during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal as appropriate.

All intra-group balances, transactions, income and expenses and profit and losses are eliminated in full.

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

3.4 Significant accounting policies

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

3.4.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30")

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

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

Transition

Changes in accounting policies resulting from the adoption of FAS 30 have been applied retrospectively, except comparative periods which have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of FAS 30 are recognised in accumulated losses as at 1 July 2018. Accordingly, the information presented for June 2018 does not reflect the requirements of FAS 30 and therefore is not comparable to the information presented for June 2019 under FAS 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019

3 BASIS OF PREPARATION (continued)**3.4 Significant accounting policies (continued)****3.4.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)**

Impact of adopting FAS 30	<i>Balance at 30 June 2018 USD '000</i>	<i>Transition adjustment USD '000</i>	<i>Balance at 1 July 2018 USD '000</i>
Accumulated losses	(30,330)	(4,791)	(35,121)
Balances and placements with banks	7,326	(14)	7,312
Murabaha financing to investee companies	38,597	(2,325)	36,272
Receivables	33,420	(1,452)	31,968
Funding to project companies	3,025	(501)	2,524
Other assets	23,795	(400)	23,395
Other liabilities	15,456	99	15,555

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

a) Financial contracts

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

b) Impairment assessment (policy applicable from 1 July 2018)**Impairment of financial assets**

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

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

Stage 1: twelve months ECL

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

Stage 2: lifetime ECL – not credit impaired

For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised. Lifetime ECL is the loss that results from all possible default events over the expected life of the financial contract.

Lifetime ECL (Stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Group and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

Stage 3: Lifetime ECL – credit impaired

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

3 BASIS OF PREPARATION (continued)

3.4 Significant accounting policies (continued)

3.4.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

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

Stage 3: Lifetime ECL – credit impaired (continued)

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

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

Credit-impaired financial assets

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

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

Measurement of ECL

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

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

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

Definition of default

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

Probability of default ("PD")

Types of PDs used for ECL computation

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

3 BASIS OF PREPARATION (continued)

3.4 Significant accounting policies (continued)

3.4.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

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

Definition of default (continued)

Incorporation of forward - looking information

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

Loss Given Default ("LGD")

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

Exposure At Default ("EAD")

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

On-balance sheet EADs

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

Off-balance sheet EADs

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

Collective ECL computation and staging

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

Significant increase in credit risk

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

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

As at 30 June 2019

3 BASIS OF PREPARATION (continued)**3.4 Significant accounting policies (continued)****3.4.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)****b) Impairment assessment (policy applicable from 1 July 2018) (continued)****Impairment of financial assets (continued)****Significant increase in credit risk (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. The amounts presented are gross of credit losses allowances.

	30 June 2019			
	Stage 1	Stage 2	Stage 3	Total
	USD '000	USD '000	USD '000	USD '000
Exposures subject to ECL				
Balances and placement with banks	10,200	-	-	10,200
Murabaha financing to investee companies	-	1,420	36,410	37,830
Wakala contract receivable	-	-	13,341	13,341
Receivables	591	163	9,740	10,494
Funding to project companies	-	7,711	70	7,781
Other assets*	-	3,334	2,711	6,045
	10,791	12,628	62,272	85,691
Guarantees and commitments	39,440	-	-	39,440
	50,231	12,628	62,272	125,131
1 July 2018				
	Stage 1	Stage 2	Stage 3	Total
	USD '000	USD '000	USD '000	USD '000
Exposures subject to ECL				
Balances and placement with banks	7,326	-	-	7,326
Murabaha financing to investee companies	37,199	1,398	-	38,597
Receivables	25,780	7,640	4,293	37,713
Funding to project companies	-	3,025	70	3,095
Other assets*	3,614	3,042	3,200	9,856
	73,919	15,105	7,563	96,587
Guarantees and commitments	39,493	-	-	39,493
	113,412	15,105	7,563	136,080

*Other assets subject to ECL excludes advances to invest (refer note 16).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019

3 BASIS OF PREPARATION (continued)

3.4 Significant accounting policies (continued)

3.4.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

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

Impairment of financial assets (continued)

Significant increase in credit risk (continued)

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

	Stage 1: 12- month ECL USD '000	Stage 2: Lifetime ECL not credit- impaired USD '000	Stage 3: Lifetime ECL credit- impaired USD '000	Total USD '000
Balance at 1 July on adoption of FAS 30				
Balances and placement with banks	(18)	-	-	(18)
Murabaha financing to investee companies	(2,790)	(210)	-	(3,000)
Wakala contract receivable	-	-	-	-
Receivables	(1,289)	(584)	(4,293)	(6,166)
Funding to project companies	-	(647)	(70)	(717)
Other assets	(181)	(335)	(2,693)	(3,209)
Guarantees and commitments	(99)	-	-	(99)
	(4,377)	(1,776)	(7,056)	(13,209)
Reversal / (charge) during the period				
Balances and placement with banks	(7)	-	-	(7)
Murabaha financing to investee companies	2,790	(74)	(7,140)	(4,424)
Wakala contract receivable	-	-	(2,669)	(2,669)
Receivables	1,231	512	(4,095)	(2,352)
Funding to project companies	-	(1,371)	-	(1,371)
Other assets	181	(50)	-	131
Guarantees and commitments	-	-	-	-
	4,195	(983)	(13,904)	(10,692)
Balance at 30 June 2019				
Balances and placement with banks	(25)	-	-	(25)
Murabaha financing to investee companies	-	(284)	(7,140)	(7,424)
Wakala contract receivable	-	-	(2,669)	(2,669)
Receivables	(58)	(72)	(8,388)	(8,518)
Funding to project companies	-	(2,018)	(70)	(2,088)
Other assets	-	(385)	(2,693)	(3,078)
Guarantees and commitments	(99)	-	-	(99)
As at 30 June 2019	(182)	(2,759)	(20,960)	(23,901)

During the year ended 30 June 2019, an exposure amounting USD 36,410 thousand relating to 'Murabaha financing to investee companies' and its ECL of USD 2,790 thousand has been transferred from stage 1 to stage 3. Additionally, an exposure amounting USD 13,341 thousand relating to 'Wakala contract receivable' and its ECL of nil has been transferred from stage 2 to stage 3 (refer note 13).

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the consolidated financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The most significant judgements and estimates are discussed below:

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

Classification of investments

Management decides on acquisition of a financial asset whether it should be classified as "fair value through profit or loss", "available-for-sale" or "held to maturity". The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques, such as the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as country risk, illiquidity discounts, etc. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Details of estimates and related sensitivity analysis are disclosed in notes 37 and 38.

Impairment on assets carried at amortised cost

Judgement by management is required in the estimation of the amount and timing of future cash flows when determining impairment loss. In estimating these cash flows, the Group makes judgements about the liquidity of the project, evidence of deterioration in the financial health of the project, impacts of delays in completion of the project and the net realisable value of any underlying assets. These estimates are based on assumptions about a number of factors, and actual results may differ, resulting in future changes to the allowance.

Impairment of available-for-sale investments

The Group records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the investment's fair value compared to cost. The determination of what is 'significant' or 'prolonged' requires judgement and is assessed for each investment separately. In case of quoted equity securities, the Group considers a decline of more than 30% in the fair value below cost to be significant and considers a decline below cost which persists for more than six months as prolonged. In making this judgement, the Group evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

Where fair values are not readily available and the investments are carried at cost, the recoverable amount of such investment is estimated to assess impairment. In making a judgement of impairment, the Group evaluates among other factors, evidence of deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Consolidation of special purpose entities (SPEs)

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

5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

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

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

FAS 28 Murabaha and other deferred payment sales

This standard prescribes the accounting and reporting principles and requirements for Murabaha and deferred payment sales transactions and different elements of such transaction. This standard supersedes the earlier FAS 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS 20 "Deferred Payment Sale". This standard shall be effective beginning on or after 1 January 2019, with early adoption permitted.

FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar)

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

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

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency transactions

(i) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in USD, which is the Bank's functional and presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined and the differences are included in equity as part of the fair value adjustment of the respective items. Fair value differences arising from investments in associates denominated in a foreign currency are taken to "foreign currency translation reserve" forming part of equity.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Foreign currency transactions (continued)

(iii) Group companies

The Group does not have significant investments in foreign operations with functional currency different from the presentation currency of the Group. The functional currency of the majority of the Group's entities are either USD or currencies which are effectively pegged to the USD, and hence, the translation of the financial statements of Group entities that have a functional currency different from the presentation currency do not result in significant exchange differences.

(b) Financial assets and liabilities

(i) Recognition and de-recognition

Financial assets of the Group comprise cash and balances with banks, placements with financial institutions, investments (other than associates and joint venture that are equity accounted), receivable from investment banking services, funding to project companies and other assets. Financial liabilities of the Group comprise Islamic financing payables, employee accruals and other liabilities. All financial assets (except investment securities) and financial liabilities are recognised on the date at which they are originated. Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument.

A financial asset or liability is initially measured at fair value which is the value of the consideration given (in the case of an asset) or received (in the case of a liability).

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- (i) the right to receive cash flows from the asset has expired;
- (ii) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- (iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(ii) Classification of financial assets and liabilities

The Group classifies financial assets under the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale financial assets. Except for investment securities, the Group classifies all other financial assets as loans and receivables. All of the financial liabilities of the Group are classified at amortised cost. Management determines the classification of its financial instruments at initial recognition.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial assets and liabilities (continued)

(iii) Measurement principles

Financial assets and liabilities are measured either at fair value, amortised cost or, in certain cases, cost.

Fair value measurement

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analysis and other valuation models with accepted economic methodologies for pricing financial instruments.

Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

(c) Investments in real estate

Under FAS 26 Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, an entity has the option to adopt either the fair value model or the cost model and shall apply that policy consistently to all of its investment in real estate. The Group has opted for the cost model.

(d) Investments

The Group classifies its investments, excluding investment in subsidiaries and equity accounted associates and joint ventures, in the following categories: fair value through profit or loss, held-to-maturity, and available-for-sale.

(i) Classification

Investments carried at fair value through profit or loss are financial assets that are either held for trading or which upon initial recognition are designated as such by the Group.

An investment is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term or part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These include investments in quoted equities.

The Group designates investments at fair value through profit or loss at inception only when it is managed, evaluated and reported internally on a fair value basis. These include certain private equity investments, including investments in certain associates and joint ventures.

Held-to-maturity investments are investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale. The Group currently does not hold any held-to-maturity investments.

Available-for-sale investments are financial assets that are not investments carried at fair value through profit or loss or held-to-maturity or loans and receivables and are intended to be held for an indefinite period of time and that may be sold in response to need for liquidity or in response to change in market conditions. These include investments in certain quoted and unquoted equity securities.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Investments (continued)

(ii) Initial recognition

Investments are initially recognised at cost, plus transaction costs for all financial assets not carried at fair value through profit or loss. Transaction costs on investments carried at fair value through profit or loss are expensed in the consolidated statement of income when incurred.

(iii) Subsequent measurement

Subsequent to initial recognition, investments at fair value through profit or loss and available-for-sale investments are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at fair value through profit or loss are recognised in the consolidated statement of income in the period in which they arise. Gains and losses arising from a change in the fair value of available-for-sale investments are recognised in the consolidated statement of changes in equity under 'Investment fair value reserve' within equity. When available-for-sale investments are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in equity is transferred to the consolidated statement of income. Available-for-sale investments which do not have a quoted market price or other appropriate methods from which to derive reliable fair values are stated at cost less impairment allowances.

Held-to-maturity investments are carried at amortised cost less any impairment allowances.

(iv) Fair value measurement principles

The determination of fair value for investments depends on the accounting policy as set out below:

- (i) For investments quoted in an active market, fair value is determined by reference to quoted market bid prices prevailing on the reporting date;
- (ii) For investments in unit funds, fair value is determined based on the latest net asset value as of the reporting date provided by the fund manager; and
- (iii) For unquoted investments, where the fair values cannot be derived from active markets, fair values are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as expected cash flows, expected scale of activity, EBITDA multiples and discount rates.

For certain investments, the Group uses proprietary models, which usually are developed from recognised valuation models for fair valuation. Some or all of the inputs into these models may not be market observable, but are based on various estimates and assumptions. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. Valuation adjustments are recorded to allow for bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state the values of these investments.

(v) Impairment of investments

On each reporting date, the Group assesses whether there is objective evidence that investments not carried at fair value through profit or loss are impaired. Impairment is assessed on an individual basis for each investment and is reviewed twice a year.

In case of available-for-sale equity securities carried at fair value, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in recognition of an impairment loss. If any such evidence exists for available-for-sale investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity instruments are not subsequently reversed through the consolidated statement of income.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Investments (continued)

(v) Impairment of investments (continued)

For available-for-sale investments carried at cost, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

(e) Other financial assets carried at amortised cost

All other financial assets are classified as loans and receivables and are carried at amortised cost less provision for credit losses. Impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses, if any, are recognised in the consolidated statement of income and reflected in an allowance account against the respective financial asset.

(f) Investment in associates accounted under the equity method

The Group's investment in its associates, being entities in which the Group has significant influence, are accounted for using the equity method.

Under the equity method, the investment in the associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associates is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associates. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit of associates is shown on the face of the consolidated statement of income. This is the profit attributable to equity holders of the associates and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associates.

The financial statements of the associates are prepared for the reporting period ending on 31 December. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in 'Share of loss of associates and joint venture' in the consolidated statement of income.

Upon loss of significant influence over the associate, the Group measures and recognises any remaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the investment and proceeds from disposal is recognised in the consolidated statement of income.

(g) Investment in a joint venture accounted under the equity method

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Group's investments in its joint venture are accounted for using the equity method on the face of the consolidated statement of income in 'Share of loss of associates and joint venture'.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investment in a joint venture accounted under the equity method (continued)

The Group has an interest in a joint venture whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, transactions and unrealised gains and losses on such transactions between the Group and its joint venture. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

Upon loss of joint control, the Group measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former joint venture upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in the consolidated statement of income. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate and accounted under the equity method.

(h) Cash and cash equivalents

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

(i) Property and equipment

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

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

(j) Impairment of non-financial assets

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

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

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

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Islamic financing payable

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

(l) Financial guarantees

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

(m) Dividends

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

(n) Share capital and statutory reserve

Share capital

Ordinary shares issued by the Bank are classified as equity. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Statutory reserve

The Bahrain Commercial Companies Law 2001 requires that 10 per cent of the annual profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 per cent of the paid up share capital.

(o) Revenue recognition

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

Income from investment banking services

Income from investment banking services comprise income from investment advisory and structuring income, advisory fee, placement and arrangement fee and other fees arising from related activities, as further explained below:

(i) Investment advisory and structuring income

Investment advisory and structuring income is recognised when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Group.

(ii) Fee income

Fee income is recognised when earned and the related services are performed and / or upon achieving required performance.

(iii) Income from placements with financial institutions

Income from placements with financial institutions is recognised on a time-apportioned basis over the period of the related contract.

(iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Revenue recognition (continued)

Income from investment banking services (continued)

(v) Rental income

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

(p) Operating leases

Payments made under operating leases are recognised in the consolidated statement of income on a straight-line basis over the term of the lease.

(q) Off-balance sheet equity of investment account holders

Off-balance sheet equity of investment account holders represent assets acquired using funds provided by holders of restricted investment accounts and managed by the Group as an investment manager based on a mudaraba contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investment account holders. Assets that are held in such capacity are not included as assets of the Group in the consolidated financial statements.

(r) Employee benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Post employment benefits

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organization (SIO) scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Bank are recognised as an expense in the consolidated statement of income. The Bank's obligations are limited to these contributions, which are expensed when due.

Employees are also entitled to leaving indemnities payable based on length of service and final remuneration. Provision for this unfunded commitment, which is a "defined benefit scheme" in nature, has been made by calculating the notional liability had all employees left at the date of the statement of financial position. Any increase or decrease in the benefit obligation is recognised in the consolidated statement of income.

(s) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the consolidated statement of income net, of any reimbursement.

(t) Segment reporting

The Group primarily operates as an investment bank and its lines of business comprise venture capital, private equity and real estate. At present the Group's revenue is reviewed by lines of business and the expenses and results are reviewed at a Group level and therefore no separate operating segment results and other disclosures are provided in these consolidated financial statements.

(u) Zakah

In the absence of appointment of the Bank to pay Zakah on behalf of the shareholders, the responsibility of payment of Zakah is on individual shareholders of the Group. The Zakah per share amount is presented in note 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(v) Offsetting financial instruments**

Financial assets and financial liabilities are offset, and the net amount reported in the consolidated statement of financial position, if and only if there is a legally enforceable or religious right (based on Shari'a) to set off the recognised amounts and the Group intends to settle on a net basis.

(w) Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

7 INVESTMENT IN SUBSIDIARIES

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

Name of subsidiary	Year of incorporation	% holding	Country of incorporation	Principal activities
Gulf Projects Company W.L.L.	1998	100%	Kingdom of Bahrain	To own an interest in and operate the Venture Capital Bank Building.
The Lounge Serviced Offices Company W.L.L.	2007	100%	Kingdom of Bahrain	To own, operate and manage serviced offices in Bahrain and regionally.
GMCB Co. W.L.L. *	2008	50.59%	Kingdom of Bahrain	To invest in a medical facility in the Kingdom of Bahrain. The Group achieved control of the entity in June 2018.
Venture Foods S.P.C. *	2016	60%	Kingdom of Bahrain	To own a wholesale and/or retail of food and beverages in the Kingdom of Bahrain. The Group achieved control in October 2018.

* The Group's investment in GMCB Co. W.L.L. and Food Vest Holding W.L.L. are not consolidated on a line by line basis where control was deemed to be temporary in nature and the Group's intension is to dispose of the entities within twelve months from acquisition and management is actively seeking a buyer in accordance with FAS 23. The carrying value of these unconsolidated subsidiaries are currently classified under Investments as held for sale amounting USD 13,103 thousand as at 30 June 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019

8 CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

At 30 June 2019	<i>Fair value through profit or loss USD '000</i>	<i>Available- for-sale USD '000</i>	<i>Amortised cost / cost USD '000</i>	<i>Total USD '000</i>
ASSETS				
Balances and placements with banks	-	-	10,175	10,175
Investments	75,163	35,819	-	110,982
Murabaha financing to investee companies	-	-	30,406	30,406
Wakala contract receivable	-	-	10,672	10,672
Receivables	-	-	1,976	1,976
Funding to project companies	-	-	5,693	5,693
Other assets	-	-	26,540	26,540
TOTAL FINANCIAL ASSETS	75,163	35,819	85,462	196,444
LIABILITIES				
Islamic financing payables	-	-	109,692	109,692
Other liabilities	-	-	9,563	9,563
TOTAL FINANCIAL LIABILITIES	-	-	119,255	119,255
OFF BALANCE SHEET ITEMS				
Equity of investment account holders	-	1,821	66	1,887
At 30 June 2018				
	<i>Fair value through profit or loss USD '000</i>	<i>Available- for-sale USD '000</i>	<i>Amortised cost / cost USD '000</i>	<i>Total USD '000</i>
ASSETS				
Balances and placements with banks	-	-	7,326	7,326
Investments	99,697	51,819	-	151,516
Murabaha financing to investee companies	-	-	38,597	38,597
Receivables	-	-	33,420	33,420
Funding to project companies	-	-	3,025	3,025
Other assets	-	-	23,704	23,704
TOTAL FINANCIAL ASSETS	99,697	51,819	106,072	257,588
LIABILITIES				
Islamic financing payables	-	-	109,155	109,155
Other liabilities	-	-	12,797	12,797
TOTAL FINANCIAL LIABILITIES	-	-	121,952	121,952
OFF BALANCE SHEET ITEMS				
Equity of investment account holders	-	2,040	66	2,106

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019

9 BALANCES AND PLACEMENTS WITH BANKS

	30 June 2019 USD '000	30 June 2018 USD '000
Balances in current and call accounts	7,330	5,285
Short-term placements with financial institutions	2,871	2,041
Less: Deferred profits	(1)	-
	<u>10,200</u>	<u>7,326</u>
Less: ECL provision	(25)	-
	<u>10,175</u>	<u>7,326</u>

Short-term placement comprises of wakala placement with a locally incorporated Islamic bank at an expected profit rate ranging between 2.1% to 0.72% (2018: 2% and 1.85%) maturing within 90 days of initial placement. The Group's balances and placements with banks includes USD 5,130 thousand of investors' funds received in transit. Subsequent to 30 June 2019, the Group have transferred these funds to its respective project company bank account.

10 INVESTMENTS

	30 June 2019 USD '000	30 June 2018 USD '000
Investments at fair value through profit or loss		
Quoted equities held for trading	4,090	3,951
Unquoted:		
Equities	67,788	89,112
Fund	3,285	6,634
	<u>75,163</u>	<u>99,697</u>
Available-for-sale investments ("AFS")		
Unquoted equities	34,015	37,859
Short term liquidity certificates	1,804	13,960
	<u>35,819</u>	<u>51,819</u>
	<u>110,982</u>	<u>151,516</u>

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

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

	30 June 2019 USD '000	30 June 2018 USD '000
Real estate projects	22,677	34,735
Business development projects	12,772	12,772
Healthcare projects	-	3,730
Financial services	370	582
	<u>35,819</u>	<u>51,819</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019

11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE ACCOUNTED UNDER THE EQUITY METHOD

The Group has the following associates and joint venture which are accounted under the equity method as at 30 June:

<i>Name of associate</i>	<i>Nature of business</i>	<i>Country of incorporation</i>	<i>% holding</i>	
			<i>30 June 2019</i>	<i>30 June 2018</i>
Mozon Holding SA	Investment development	Kingdom of Morocco	20.00	20.00
Venture Capital Fund Bahrain	Small & medium enterprises investment fund	Kingdom of Bahrain	30.00	30.00

<i>Name of joint venture</i>	<i>Nature of business</i>	<i>Country of incorporation</i>	<i>% holding</i>	
			<i>30 June 2019</i>	<i>30 June 2018</i>
Global Real Estate Co. W.L.L.	Real estate development	Kingdom of Bahrain	50	50

	<i>30 June 2019</i>	<i>30 June 2018</i>
	<i>USD '000</i>	<i>USD '000</i>
The carrying value comprises:		
Associates	1,396	1,733
Joint venture	21,305	24,933
	22,701	26,666

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

	<i>30 June 2019</i>	<i>30 June 2018</i>
	<i>USD '000</i>	<i>USD '000</i>
At 1 July	26,666	26,960
Acquisitions / additional investments during the year	53	133
Foreign currency differences	-	59
Impairment provisions charged	(3,959)	(354)
Share of losses of associates and joint venture, net	(59)	(132)
At 30 June	22,701	26,666

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

	<i>30 June 2019</i>	<i>30 June 2018</i>
	<i>USD '000</i>	<i>USD '000</i>
Total assets	79,189	76,084
Total liabilities	24,189	22,000
Total revenues for the year	110	117
Total net loss for the year	(17)	(112)

As at 30 June 2019

12 MURABAHA FINANCING TO INVESTEE COMPANIES

	30 June 2019 USD '000	30 June 2018 USD '000
Financing to an investee companies in the following sectors:		
Shipping	36,410	37,199
United Kingdom real estate	1,420	1,398
	37,830	38,597
Less: ECL provision	(7,424)	-
At 30 June	30,406	38,597

These represent financing support extended by the Group to facilitate the debt restructuring and repayments of the investees with external lenders in the form of commodity murabaha contracts at profit rates of 6% p.a. Financing to an investee in the shipping sector is fully secured by pledge of underlying assets of the investee to the Group.

Subsequent to 30 June 2019, the Group disposed the underlying assets for a net consideration of USD 28,779 thousand.

13 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" or "Bahrain Middle East Bank B.S.C.(c)") at an expected profit rate of 6.5% per annum with maturities ranging between 90 to 150 days. The Group recognised an ECL of 20% under stage 3 amounting USD 2,668 thousand during the year ended 30 June 2019 (year ended 30 June 2018: nil).

The Group suspended accruing the profit on its wakala contract receivable as the Wakil have failed to redeem the Group's wakala upon their request. The Group has a corresponding short-term borrowing from Bahrain Middle East Bank B.S.C. (c) ("BMB") under an unrestricted wakala agreement amounting USD 13,241 thousand (refer note 18.2). Currently the Group is in advanced discussions to net off the receivable from TFC and payable to BMB.

14 RECEIVABLES

	30 June 2019 USD '000	30 June 2018 USD '000
Receivable from investment banking services	9,903	26,384
Receivable on sale of investment	591	11,329
	10,494	37,713
Less: ECL provision	(8,518)	(4,293)
	1,976	33,420

Refer to note 27 for movement in impairment provision.

15 FUNDING TO PROJECT COMPANIES

	30 June 2019 USD '000	30 June 2018 USD '000
Gross funding	7,781	3,095
Less: Impairment provision	(2,088)	(70)
	5,693	3,025

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019

15 FUNDING TO PROJECT COMPANIES (continued)

These relate to fundings provided to various projects and investments promoted by the Group. The financing facilities are generally free of profit and do not have specific terms of repayment, and are expected to be recovered in the course of project development or on realisation of cash flows from sale of the underlying assets or through their operations. Impairment provision have been recorded where necessary to reflect delays and doubts over recoverability based on the Group's regular impairment assessments.

16 OTHER ASSETS

	30 June 2019 USD '000	30 June 2018 USD '000
Advances to acquire investments	24,492	21,773
Project costs recoverable	2,217	1,864
Dividend receivable	-	904
Other receivables	3,047	3,309
Less: Impairment provision	(3,078)	(4,055)
	26,678	23,795

17 PROPERTY AND EQUIPMENT

	<i>Building USD '000</i>	<i>Office equipment USD '000</i>	<i>Furniture and fixtures USD '000</i>	<i>Motor vehicles USD '000</i>	<i>Total USD '000</i>
Cost					
At 1 July 2018	10,098	1,814	4,811	496	17,219
Additions during the year	-	-	6	-	6
At 30 June 2019	10,098	1,814	4,817	496	17,225
Depreciation					
At 1 July 2018	2,366	1,806	4,752	479	9,403
Charge for the year	279	8	44	11	342
At 30 June 2019	2,645	1,814	4,796	490	9,745
Net book value at 30 June 2019	7,453	-	21	6	7,480
Net book value at 30 June 2018	7,732	8	59	17	7,816

18 ISLAMIC FINANCING PAYABLES

		30 June 2019 USD '000	30 June 2018 USD '000
Short-term Islamic financing payables:			
Wakala payable to non-bank	18.1	70,687	70,687
Wakala payable to financial institution	18.2	39,005	38,468
		109,692	109,155

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019

18 ISLAMIC FINANCING PAYABLES (continued)

18.1 This represents a medium-term wakala financing raised in January 2017 at an annual profit rate of 6%. During the year, this facility became short-term financing payable with a bullet repayment in January 2020.

18.2 These consist of short-term wakala Islamic financing payables from locally incorporated Islamic banks with maturities of not more than one month. These Islamic financing payables carry annual profit rates ranging between 4.25% to 2.75% (2018: 2.75%). Wakala payable to financial institution includes USD 13,241 thousand payable to BMB, under which the Group is undergoing a legal case to net off the payable amount against the wakala contract receivable (refer to note 13).

19 OTHER LIABILITIES

	30 June 2019 USD '000	30 June 2018 USD '000
Accounts payable	9,563	12,797
Provisions and accruals	1,567	1,332
Deferred income	1,274	1,224
Other	741	103
	13,145	15,456

20 SHARE CAPITAL

	30 June 2019 USD '000	30 June 2018 USD '000
Authorised: 500,000,000 ordinary shares of USD 1 each	500,000	500,000
Issued and fully paid up: 190,000,000 shares of USD 1 each (2018: 190,000,000 shares of USD 1 each)	190,000	190,000

a) Statutory reserve

The Bahrain Commercial Companies Law and the Bank's articles of association requires that 10% of the profit for the year shall be transferred to a statutory reserve. During the year, there has been no transfer to statutory reserve made for 2019 until the Group's accumulated losses is cleared and profits are achieved. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

21 INCOME FROM INVESTMENT BANKING SERVICES - NET

	30 June 2019 USD '000	30 June 2018 USD '000
Investment banking and structuring income	1,947	1,000
Investment management and arrangement fees	206	218
	2,153	1,218

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019

22 GAIN ON SALE OF INVESTMENT

	<i>30 June</i> 2019 <i>USD '000</i>	<i>30 June</i> 2018 <i>USD '000</i>
Gain on sale of available-for-sale investments - net	1,133	4,237
Gain on sale of investment in associate	-	938
Gain on sale of investment designated at fair value through profit or loss	-	1,163
	1,133	6,338

23 FINANCE INCOME

	<i>30 June</i> 2019 <i>USD '000</i>	<i>30 June</i> 2018 <i>USD '000</i>
Finance income		
Income from placements with financial institutions	284	133
Income from funding to project companies	3,788	4,652
	4,072	4,785
Finance expense		
Cost of Islamic financing payables	(5,369)	(5,623)
Net finance expense	(1,297)	(838)

24 RENTAL AND OTHER INCOME

	<i>30 June</i> 2019 <i>USD '000</i>	<i>30 June</i> 2018 <i>USD '000</i>
Rental and property management income	357	544
Other income	1,429	1,903
	1,786	2,447

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

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

	<i>30 June</i> 2019 <i>USD '000</i>	<i>30 June</i> 2018 <i>USD '000</i>
Trading securities - quoted	546	(631)
Investments designated at fair value through profit or loss - net	(35,615)	(3,202)
	(35,069)	(3,833)

26 STAFF COSTS

	<i>30 June</i> 2019 <i>USD '000</i>	<i>30 June</i> 2018 <i>USD '000</i>
Salaries and benefits	5,938	5,385
Social insurance expenses	370	348
Employee severance cost	749	-
Other staff expenses	4	12
	7,061	5,745

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019

27 PROVISIONS FOR CREDIT LOSSES - NET

	Investments (Note 10) USD '000	Investments in associates and JV (Note 11) USD '000	ECL on financial assets carried at amortised cost (Note 3.4) USD '000	Total USD '000
30 June 2019				
Provision at the beginning of the year	(20,703)	(574)	(13,209)	(34,486)
Impairment provisions charged	(1,312)	(3,959)	(10,692)	(15,963)
Provision at the end of the year	(22,015)	(4,533)	(23,901)	(50,449)

Specific impairment provisions relating to

	Investments in associates and JV USD '000	Receivables (Note 14) USD '000	Funding to project companies (Note 15) USD '000	Other assets (Note 16) USD '000	Collective impairment provision* (Note 16) USD '000	Total USD '000
30 June 2018						
Provision at the beginning of the year	(22,752)	(4,568)	(12,067)	(2,971)	(1,362)	(49,113)
Impairment provisions charged	(1,018)	-	-	(120)	-	(1,492)
Write-offs	3,067	275	11,997	398	-	20,910
Provision at the end of the year	(20,703)	(4,293)	(70)	(2,693)	(1,362)	(29,695)

* Collective impairment provision relates to other assets (refer to note 16).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019

28 OTHER EXPENSES

	30 June	<i>30 June</i>
	2019	<i>2018</i>
	USD '000	<i>USD '000</i>
Rent and office expenses	1,594	1,626
Publicity, conferences and promotion	122	96
Board of directors and Shari'a supervisory board fees and expenses	495	461
Exchange loss (gain)	186	(52)
Project management costs	1,232	853
Other	16	42
	3,645	3,026

29 RELATED PARTY TRANSACTIONS

Related parties represent shareholders, directors and key management of the Group, and entities controlled, jointly controlled or significantly influenced by such parties.

A significant portion of the Group's income from investment banking services and management fees are from entities over which the Group exercises influence. Although these entities are considered related parties, the Group administers and manages these entities on behalf of its clients, who are mostly third parties and are the economic beneficiaries of the underlying investments.

Venture Capital Bank B.S.C. (c)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019

29 RELATED PARTY TRANSACTIONS (continued)

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

	Associates and joint venture USD '000	Board members/ key management personnel/ Shari'a board members/ external auditors USD '000	Significant shareholders / entities in which directors are interested USD '000	Total USD '000
30 June 2019				
Assets				
Balances and placements with banks	-	-	167	167
Investments	20,880	-	6,251	27,131
Investments in associates and joint venture accounted under the equity method	22,701	-	-	22,701
Murabaha financing to investee companies	29,424	-	-	29,424
Other assets	5,415	-	860	6,275
Liabilities				
Employee accruals	-	580	-	580
Other liabilities	-	-	498	498
Income				
Share of loss of associates and joint venture accounted for using the equity method	(59)	-	-	(59)
Other income	-	-	773	773
Expenses (excluding compensation for key management personnel)				
Impairment allowances against receivables	300	-	-	300
Commitments and contingencies				
	26,314	-	-	26,314

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019

29 RELATED PARTY TRANSACTIONS (continued)

	Associates and joint venture USD '000	Board members/ key management personnel/ Shari'a board members/ external auditors USD '000	Significant shareholders / entities in which directors are interested USD '000	Total USD '000
30 June 2018				
Assets				
Balances and placements with banks	-	-	210	210
Placements with financial institutions	-	-	-	-
Investments	19,838	-	6,634	26,472
Investments in associates and joint venture accounted under the equity method	26,666	-	-	26,666
Murabaha financing to investee companies	37,199	-	-	37,199
Other assets	5,414	-	800	6,214
Liabilities				
Employee accruals	-	1,503	-	1,503
Other liabilities	-	-	423	423
Income				
Share of loss of associates and joint venture accounted for using the equity method	(132)	-	-	(132)
Other income	-	-	754	754
Expenses (excluding compensation for key management personnel)				
Impairment allowances against receivables	354	-	-	354
Commitments and contingencies				
	26,368	-	-	26,368

29 RELATED PARTY TRANSACTIONS (continued)

Key management personnel

Key management personnel of the Group comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

Details of Directors' interests in the Bank's ordinary shares as at the year end were:

Categories**

	30 June 2019		30 June 2018	
	Number of Shares	Number of Directors	Number of Shares	Number of Directors
Less than 1%	6,166,532	5	5,952,312	7
1% up to less than 5%	6,803,131	2	16,654,724	4
5% and less than 10%	25,179,616	2	25,179,616	2
	38,149,279	9*	47,786,652	13

* One director representing a corporate shareholder also holds a personal ownership of 1.19%, hence total directors for the year ended 2019 are 8 directors.

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

Compensation of directors and key management personnel are as follows:

	30 June 2019	30 June 2018
	USD '000	USD '000
Board of directors' attendance fees	306	277
Salaries and other short-term benefits	3,787	1,715
	4,093	1,992

Terms and conditions of transactions with related parties

The Group enters into transactions, arrangements and agreements with its related parties in the ordinary course of business at commercial profit rates and fees. The above mentioned transactions and balances arose from the ordinary course of business of the Group. Outstanding balances at the period end are unsecured except for a murabaha receivable to a shipping industry investee which are secured by the pledge of four vessels.

Board of Directors' remuneration

No board remuneration was proposed for the years 2019 and 2018.

30 ZAKAH

In accordance with the Articles of Association, the Bank is not required to collect or pay Zakah on behalf of its shareholders or its off-balance sheet equity accounts holders during the year ended 30 June 2019 and the prior period, the Bank did not pay Zakah on behalf of its shareholders. Accordingly, statement of sources and users of Zakah Fund is not presented in the financial statements. However, the Bank is required to calculate and notify individual shareholders of their pro-rata share of Zakah on each share held in the Bank. Zakah payable by the shareholders is computed by the Bank based on the method prescribed by the Bank's Shari'a Supervisory Board. Zakah payable by the shareholders in respect of each share for the year ended 30 June 2019 is US cents nil for every share held (2018: US cents nil for every share held). Investors should be aware that the ultimate responsibility of calculating and paying the Zakah due on them is their sole responsibility.

31 EARNINGS PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means. There were no earnings from non-Islamic sources during the year (2018: nil).

32 SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board consists of three Islamic scholars who review the Group's compliance with general Shari'a principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

33 MATURITY PROFILE

The table below shows the maturity profile of the Group's assets and liabilities and unrecognised commitments on the basis of their expected maturities. The amount of cash flows on these instruments may vary significantly from this analysis. For contractual maturity of financial liabilities refer note 37 (c).

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

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As at 30 June 2019

33 MATURITY PROFILE (continued)

30 June 2018	Up to 3 months USD '000	3 to 6 months USD '000	6 months to 1 year USD '000	Total up to 1 year USD '000	1 to 3 years USD '000	Over 3 years USD '000	No fixed maturity USD '000	Total USD '000
Assets								
Balances and placements with banks	7,326	-	-	7,326	-	-	-	7,326
Investments	12,770	1,190	-	13,960	-	-	137,556	151,516
Investments in associates and joint venture accounted under the equity method	-	-	-	-	-	-	26,666	26,666
Murabaha financing to investee companies	400	1,798	400	2,598	35,999	-	-	38,597
Receivables	27,719	2,753	-	30,472	2,948	-	-	33,420
Funding to project companies	-	3,025	-	3,025	-	-	-	3,025
Other assets	1,807	2,660	409	4,876	11	15	18,893	23,795
Property and equipment	-	-	-	-	-	-	7,816	7,816
Total assets	50,022	11,426	809	62,257	38,958	15	190,931	292,161
Liabilities								
Islamic financing payables	38,468	-	-	38,468	70,687	-	-	109,155
Employee accruals	-	-	-	-	438	-	1,654	2,092
Other liabilities	11,855	776	141	12,772	3	2,648	33	15,456
Total liabilities	50,323	776	141	51,240	71,128	2,648	1,687	126,703
Net liquidity gap	(301)	10,650	668	11,017	(32,170)	(2,633)	189,244	165,458
Cumulative liquidity gap	(301)	10,349	11,017	11,017	(21,153)	(23,786)	165,458	165,458
Commitments and contingencies	-	186	302	488	29,005	-	10,000	39,493

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019

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

a) Industry sector

30 June 2019	Trading and Manufacturing USD '000	Banks and financial Institutions				Real estate USD '000	Oil and Gas USD '000	Health care USD '000	Technology USD '000	Shipping USD '000	Other USD '000	Total USD '000
		USD '000	USD '000	USD '000	USD '000							
Assets												
Balances and placements with banks	-	10,175	-	-	-	-	-	-	-	-	-	10,175
Investments	7,891	8,814	38,809	-	2,572	1,688	-	-	-	51,208	-	110,982
Investment in associates and joint venture accounted under the equity method	-	-	21,304	-	-	-	-	-	-	1,397	-	22,701
Murabaha financing to investee companies	-	-	982	-	-	-	-	-	29,424	-	-	30,406
Wakala contract receivable	-	10,672	-	-	-	-	-	-	-	-	-	10,672
Receivables	-	-	159	-	-	-	-	-	-	1,817	-	1,976
Funding to project companies	-	659	4,211	-	-	-	-	-	-	823	-	5,693
Other assets	5,414	29	793	-	-	3	-	-	-	20,439	-	26,678
Property and equipment	-	-	7,099	-	-	-	-	-	-	381	-	7,480
Total assets	13,305	30,349	73,357	-	2,572	1,691	-	1,691	29,424	76,065	-	226,763
Liabilities												
Islamic financing payable	-	38,215	-	-	-	-	-	-	-	71,477	-	109,692
Employee accruals	-	-	-	-	-	-	-	-	-	1,440	-	1,440
Other liabilities	-	-	-	-	-	-	-	-	-	13,145	-	13,145
Total liabilities	-	38,215	-	-	-	-	-	-	-	86,062	-	124,277
Commitments and contingencies (note 36)	25,138	10,000	318	-	975	-	-	-	-	3,009	-	39,440
Equity of investment account holders	-	1,563	-	-	-	-	-	-	-	324	-	1,887

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2019

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

a) Industry sector (continued)

	Trading and Manufacturing USD '000	Banks and financial Institutions USD '000	Real estate USD '000	Oil and Gas USD '000	Health care USD '000	Technology USD '000	Shipping USD '000	Other USD '000	Total USD '000
Assets									
Balances and placements with banks	-	7,326	-	-	-	-	-	-	7,326
Investments	10,553	10,001	50,252	4,845	8,652	962	4,929	61,322	151,516
Investment in associates and joint venture accounted under the equity method	-	-	24,932	-	-	-	-	1,734	26,666
Murabaha financing to investee companies	-	-	1,398	-	-	-	37,199	-	38,597
Receivables	-	-	3,754	-	14,740	-	-	14,926	33,420
Funding to project companies	-	625	2,400	-	-	-	-	-	3,025
Other assets	5,414	25	2,981	-	4	-	-	15,371	23,795
Property and equipment	-	-	7,363	-	-	-	-	453	7,816
Total assets	15,967	17,977	93,080	4,845	23,396	962	42,128	93,806	292,161
Liabilities									
Islamic financing payable	-	37,676	-	-	-	-	-	71,479	109,155
Employee accruals	-	-	-	-	-	-	-	2,092	2,092
Other liabilities	-	-	-	-	-	-	-	15,456	15,456
Total liabilities	-	37,676	-	-	-	-	-	89,027	126,703
Commitments and contingencies (note 36)	25,138	10,000	371	-	975	-	-	3,009	39,493
Equity of investment account holders	-	1,563	-	-	-	-	-	543	2,106

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

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As at 30 June 2019

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

(b) Geographic region

The following table shows the assets and liabilities of the Group, classified into geographical regions based on the domicile of the entity or underlying assets exposures for the year ended:

30 June 2019	GCC countries		Other MENA countries		Europe		Cayman / Americas		Global		Total
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	
Assets											
Balances and placements with banks	10,175	-	-	-	-	-	-	-	-	-	10,175
Investments	64,466	36,119		7,970		2,427					110,982
Investment in associates and joint venture accounted under the equity method	21,550	1,151									22,701
Murabaha financing to investee companies	-	-		982		-		29,424			30,406
Wakala contract receivable	10,672	-		-		-		-			10,672
Receivables	533	1,285		-		158		-			1,976
Funding to project companies	5,693	-		-		-		-			5,693
Other assets	2,636	23,676		343		23		-			26,678
Property and equipment	7,480	-		-		-		-			7,480
Total assets	123,205	62,231		9,295		2,608		29,424			226,763
Liabilities											
Islamic financing payable	109,692	-		-		-		-			109,692
Employee accruals	1,440	-		-		-		-			1,440
Other liabilities	13,145	-		-		-		-			13,145
Total liabilities	124,277	-		-		-		-			124,277
Commitments and contingencies	14,303	25,137		-		-		-			39,440
Equity of investment account holders	1,887	-		-		-		-			1,887

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

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As at 30 June 2019

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

(b) Geographic region (continued)

30 June 2018

Assets

	GCC countries USD '000	Other MENA countries USD '000	Europe USD '000	Cayman / Americas USD '000	Global USD '000	Total USD '000
Balances and placements with banks	7,326	-	-	-	-	7,326
Investments	74,314	62,450	7,034	2,789	4,929	151,516
Investment in associates and joint venture accounted under the equity method	25,505	1,161	-	-	-	26,666
Murabaha financing to investee companies	-	-	1,398	-	37,199	38,597
Receivables	29,501	2,705	-	1,214	-	33,420
Funding to project companies	3,025	-	-	-	-	3,025
Other assets	11,351	8,188	3,455	801	-	23,795
Property and equipment	7,816	-	-	-	-	7,816
Total assets	158,838	74,504	11,887	4,804	42,128	292,161

Liabilities

Islamic financing payable	109,155	-	-	-	-	109,155
Employee accruals	2,092	-	-	-	-	2,092
Other liabilities	15,456	-	-	-	-	15,456
Total liabilities	126,703	-	-	-	-	126,703
Commitments and contingencies	14,356	25,137	-	-	-	39,493
Equity of investment account holders	2,106	-	-	-	-	2,106

As at 30 June 2019

35 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.

36 COMMITMENTS AND CONTINGENCIES

The Group has issued financial guarantees totaling USD 29.01 million (30 June 2018: USD 29.01 million) in respect of a number of its investee companies on which no losses are expected. The Group also had commitments to finance of USD nil (30 June 2018: USD nil) and commitments to invest of USD 10.43 million (30 June 2018: USD 10.49 million).

37 RISK MANAGEMENT AND CAPITAL ADEQUACY

The Group has an internal risk management function to oversee risk management and ensure the maintenance of an adequate capital base in line with best practice and in compliance with the regulations of the Central Bank of Bahrain. The Risk Committee of the Board has the overall responsibility for this function, which is managed by the Management's Executive Committee through the Risk Management Department.

The Risk Management Department independently identifies and evaluates risks in respect of each investment proposal, and periodically monitors and measures risks at investment and statement of financial position level. The Acting Head of Risk Management is the secretary to the Risk Committee of the Board and has access to the Board of Directors.

The Group is exposed to credit risk, concentration risk, liquidity risk, and market risk (which comprises equity price risk, profit rate risk and currency risk), in addition to operational risk. The Group's approach to monitoring, measuring and managing these risks are discussed below.

a) Credit risk

Credit risk is the risk that the counterparty to a financial instrument does not discharge its obligations on due dates and cause the other party to incur a financial loss. The Group's credit risk arises mainly from the balances with banks, placements with financial institutions, murabaha financing to investee companies, receivables, funding to project companies and certain other assets like advances to acquire investments, project costs recoverable and other receivables.

The Group has put in place policies and procedures for managing credit risks to ensure that risks are accurately assessed, properly approved and regularly monitored. Formal credit limits are applied at counterparty and single obligor level. Overall exposures, including large exposures, are evaluated on a monthly basis to ensure a broad diversification of risk by counterparties and concentration limits by geography and industry.

Credit-related commitments risks

In the course of its business, the Group may extend to its investment project companies guarantees which may require the Group to make payments on their behalf. Such payments are collected from the projects based on the terms of the guarantee. They expose the Group to risks similar to financing contracts and these are mitigated by the same control processes and policies.

Maximum exposure to credit risk

The maximum exposure of credit risk on the financial assets of the Group is the carrying value of the financial assets as at 30 June 2019. The Group holds collateral comprising the pledge of four ships against its funding exposure to an investee in the shipping sector totalling approximately USD 35 million as at 30 June 2019 (30 June 2018: USD 35 million). In the opinion of management, the value of the collateral based on recent ships valuations data, is considered to sufficiently cover the total exposure.

As at 30 June 2019

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)**a) Credit risk (continued)*****Maximum exposure to credit risk (continued)****Past due*

The Group's receivables are generally free of profit and do not have specific terms of repayment, but are expected to be recovered in full in the course of project development and on realisation of cash flows from sale of the underlying assets and their operations. The Group does not consider these as past due based on the expected cash flows of the project companies. For expected timelines of recovery of these balances please refer to note 33.

Impaired financial assets

Impaired financial assets are those for which the Group determines that it is probable that it will be unable to collect all principal and profit due according to the contractual terms of the exposure. Impairment is assessed on an individual basis for each exposure.

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

	30 June 2019 USD '000	30 June 2018 USD '000
Wakala contract receivable	13,341	-
Receivables	7,240	7,530
Funding to project companies	801	694
Other assets	3,122	2,844
Total	24,504	11,068

b) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group seeks to manage its concentration risk by establishing geographic and industry wise concentration limits. The geographical and industry wise distribution of assets and liabilities are set out in note 33.

At 30 June 2019, the total credit exposure to individual counterparties which comprised 10% or more of the Group's equity was USD 112.2 million relating to four counterparties (30 June 2018: USD 119.5 million relating to four counterparties).

c) Liquidity risk

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

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

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As at 30 June 2019

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

c) Liquidity risk (continued)

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group's expected cash flows on these instruments may vary significantly from this analysis. Refer note 33 for the expected maturity profile of assets and liabilities.

30 June 2019	<i>Gross undiscounted cash flows</i>					<i>Total</i> <i>USD '000</i>
	<i>Up to 3</i> <i>months</i> <i>USD '000</i>	<i>3 to 6</i> <i>months</i> <i>USD '000</i>	<i>6 months</i> <i>to 1 year</i> <i>USD '000</i>	<i>1 to 3</i> <i>years</i> <i>USD '000</i>	<i>Over 3</i> <i>years</i> <i>USD '000</i>	
Liabilities						
Islamic financing payables	38,551	-	70,687	6,646	-	115,884
Employee accruals	1,272	-	-	168	-	1,440
Other liabilities	8,029	2,591	853	488	1,184	13,145
Total financial liabilities	47,852	2,591	71,540	7,302	1,184	130,469
Commitments and contingencies	10,000	160	275	29,005	-	39,440
Equity of investment account holders	66	-	-	1,821	-	1,887
30 June 2018	<i>Gross undiscounted cash flows</i>					<i>Total</i> <i>USD '000</i>
	<i>Up to 3</i> <i>months</i> <i>USD '000</i>	<i>3 to 6</i> <i>months</i> <i>USD '000</i>	<i>6 months</i> <i>to 1 year</i> <i>USD '000</i>	<i>1 to 3</i> <i>years</i> <i>USD '000</i>	<i>Over 3</i> <i>years</i> <i>USD '000</i>	
Liabilities						
Islamic financing payables	38,553	-	-	77,333	-	115,886
Employee accruals	1,654	-	-	438	-	2,092
Other liabilities	11,888	776	141	3	2,648	15,456
Total financial liabilities	52,095	776	141	77,774	2,648	133,434
Commitments and contingencies	10,000	186	302	29,005	-	39,493
Equity of investment account holders	66	-	-	2,040	-	2,106

d) Market risk

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income or the value of its holdings of financial instruments. Market risk comprises four types of risk: currency risk, profit rate risk, equity price risk and other price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

d) Market risk (continued)

(i) Profit rate risk

Profit rate risk arises due to different timing of re-pricing of the Group's assets and liabilities. The Group's significant financial assets and liabilities sensitive to profit rate are placements with financial institutions, financing receivables and financing payables. The Group's exposure to profit rate risk is limited due to the relatively short-term nature of these assets. Average profit rates on financial instruments were:

	30 June 2019	30 June 2018
Placements with financial institutions	2.00%	2.00%
Islamic financing payables	6.00%	6.00%

Sensitivity analysis

An analysis of the Group's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

	<i>Effect on consolidated statement of income</i>	
	30 June 2019	30 June 2018
	USD '000	USD '000
100 bps parallel increase / (decrease)		
Placements with financial institutions	± 29	± 20
Funding to project companies	± 57	± 30
Islamic financing payables	± 1,097	± 1,092

Overall, profit rate risk positions are managed by the Group's Treasury, which uses placements from / with financial institutions to manage the overall position arising from the Group's activities.

(ii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risks on certain financing receivables and listed investments denominated in Kuwaiti Dinars and Great Britain Pounds. The Group seeks to manage currency risk by continually monitoring exchange rates and exposures.

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

	30 June 2019	30 June 2018
	USD '000	USD '000
Kuwaiti Dinars	4,268	3,817
Great Britain Pounds	3	1,494

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

d) Market risk (continued)

(ii) Currency risk (continued)

The table below indicates the currencies to which the Group had significant exposure at 30 June 2019 and 30 June 2018 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the US Dollar with all other variables held constant on the consolidated statement of income (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity. A negative amount on the table below represents a potential net reduction in the consolidated statements of income or equity, while a positive amount reflects a net potential increase.

	Change in currency rates	30 June 2019		30 June 2018	
		Effect on profit USD '000	Effect on equity USD '000	Effect on profit USD '000	Effect on equity USD '000
Kuwaiti Dinars	+10%	427	-	382	-
Great Britain Pounds	+10%	0	-	149	-
Kuwaiti Dinars	-10%	(427)	-	(382)	-
Great Britain Pounds	-10%	(0)	-	(149)	-

(iii) Other price risk

The Group's available-for-sale equity investments carried at cost are exposed to risk of changes in equity values. Refer note 4 for significant accounting judgements and estimates in relation to impairment assessment of available-for-sale equity investments carried at cost. The Group manages exposure to other price risks by actively monitoring the performance of the equity securities.

(iv) Equity price risk on quoted equities

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the value of individual companies' shares. The effect on profit and equity, as a result of a change in fair value of trading equity instruments and equity instruments held as available-for-sale, due to a reasonably possible change in equity indices or net asset values, with all other variables held constant, is as follows:

		30 June 2019		30 June 2018	
		Effect on profit USD '000	Effect on equity USD '000	Effect on profit USD '000	Effect on equity USD '000
Trading securities	+1%	41	-	40	-
Available-for-sale	+1%	-	-	-	-
Trading securities	-1%	(41)	-	(40)	-
Available-for-sale	-1%	-	-	-	-

37 RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)

e) Operational risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. The Risk Management Department is in charge of identifying, monitoring and managing operational risk in the Bank. The Group has an approved policy for doing this and the organisational and physical infrastructure is in place.

f) Capital management

The Bank's regulator, the CBB sets and monitors capital requirements for the Group as a whole. The Group is required to comply with the provisions of the Capital Adequacy Module of the CBB (based on the Basel III and the Islamic Financial Services Board "IFSB" frameworks) in respect of regulatory capital. In implementing current capital requirements, the CBB requires the Group to maintain a prescribed ratio of total capital to risk-weighted assets. The Bank's operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group's regulatory capital position as at 30 June was as follows:

	30 June 2019 USD '000	30 June 2018 USD '000
Total risk weighted assets	948,406	861,098
CET1 capital	102,487	165,457
Additional Tier 1	-	-
Tier 2 capital	2,940	1,362
Total regulatory capital	105,427	166,819
Total regulatory capital expressed as a percentage of total risk weighted assets	11.12%	19.37%
Minimum requirement	12.5%	12.5%

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

Tier 2 capital comprises unrealised gains arising from fair valuing equity securities supported by independent valuations. Certain adjustments are made to IFRS and AAOIFI based results and reserves, as prescribed by the CBB.

The Bank has complied with all externally imposed capital requirements throughout the year, except for a total CAR of 11.12% as of 30 June 2019, 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.

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38 FAIR VALUE

Fair value hierarchy

The table below analyses the financial instruments carried at fair value, by valuation technique. The different levels have been defined as follows:

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2** – Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- **Level 3** – Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

This hierarchy requires the use of observable market data when available. There have been no transfers between the levels of valuation during the year.

	<i>Level 1</i> <i>USD 000</i>	<i>Level 2</i> <i>USD 000</i>	<i>Level 3</i> <i>USD 000</i>	<i>Total</i> <i>USD 000</i>
30 June 2019				
Held for trading	4,090	-	-	4,090
Fair value through profit or loss	-	-	71,073	71,073
	<u>4,090</u>	<u>-</u>	<u>71,073</u>	<u>75,163</u>
	<i>Level 1</i> <i>USD 000</i>	<i>Level 2</i> <i>USD 000</i>	<i>Level 3</i> <i>USD 000</i>	<i>Total</i> <i>USD 000</i>
30 June 2018				
Held for trading	3,951	-	-	3,951
Fair value through profit or loss	-	-	95,746	95,746
	<u>3,951</u>	<u>-</u>	<u>95,746</u>	<u>99,697</u>

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value.

	<i>30 June</i> <i>2019</i> <i>USD 000</i>	<i>30 June</i> <i>2018</i> <i>USD 000</i>
At 1 July	95,746	101,032
Fair value losses recognised in the consolidated statement of income - net	(35,615)	(3,202)
(Sale of) / additional investments during the year - net	10,942	(2,084)
At 30 June	<u>71,073</u>	<u>95,746</u>

38 FAIR VALUE (continued)

Determining fair value under Level 3 includes use of valuation techniques such as the discounted cash flow model. The future cash flows have been estimated by the management, based on information and discussion with representatives of the management of the investee companies, and based on the latest available audited and un-audited financial statements. Cash flows have been projected for an initial period of between two to five years and then a terminal value has been estimated using a combination of value based on forward multiples and capitalization of cash flows of the last year of the estimate. The discount rates used for computing the present value of future cash flows range from 5.9% to 18.4%. The discount rates have been arrived at after considering the risk free rate, expected market premium, country risk and systematic risk underlying each investee company. The Group has also made use of illiquidity and marketability discounts where considered appropriate.

The potential income effect of 1% increase in the discount rates, which is a key variable used in the valuation technique, would decrease the fair values by approximately USD 1,589 thousand, whereas a 1% decrease in the discount rate would increase the fair values by approximately USD 1,712 thousand. The potential income effect of 0.5 times change, on either side, in the market multiples, which is a key variable used in the valuation technique, would increase the fair values by approximately USD 25 thousand or reduce the fair values by approximately USD 25 thousand respectively.

Investments amounting to USD 35,819 thousand (30 June 2018: USD 51,819 thousand) are carried at cost less impairment provision in the absence of a reliable measure of fair value. However in the opinion of management and based on best estimates, the fair value is not considered to be materially different from above carrying value.