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

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFOMRATION

30 SEPTEMBER 2022

Commercial registration	:	58222-1 (registered with Central Bank of Bahrain as an Islamic wholesale Bank)
Registered Office	:	Office 302, Building 1411 Road 4626, Block 346 Manama, Kingdom of Bahrain Telephone: 17518888
Directors	:	Sheikh Mohamed Bin Duaij Al Khalifa (effective 1 January 2023) Ahmed Abdulwahed Ahmed Abdulrahman (effective 1 January 2023) Bashar Mohamed Ebrahim Almutawa (effective 1 January 2023) Robert Coleman Wages (effective 1 January 2023) Isa Abdulrasool Abdulhusain Merza Jawahery (effective 1 January 2023) Abdulfatah M R H Marafie (till 30 September 2022) Mohammed Al Kandari (till 30 September 2022) Mohammed Ahmed Mohammed Jumaan (till 30 September 2022) Adel Abunayyan (till 30 September 2022) Issam Al Tawari (till 30 September 2022) Khalil Dahlawi (till 30 September 2022) Marwan Al Ghurair (till 30 September 2022) Adwan Al Adwani (till 30 September 2022)
Chief Executive Officer	:	Robert Coleman Wages
Auditors	:	KPMG Fakhro

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Independent auditors' report on review of condensed consolidated interim financial information

To the Board of Directors
Venture Capital Bank BSC (C)
P.O. Box 11755 Manama
Kingdom of Bahrain

Introduction

We were engaged to review the accompanying 30 September 2022 condensed consolidated interim financial information of Venture Capital Bank BSC (C) (the "Bank") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 September 2022;
- the condensed consolidated statement of income for the three-month and nine-month periods ended 30 September 2022;
- the condensed consolidated statement of changes in owners' equity for the nine-month period ended 30 September 2022;
- the condensed consolidated statement of changes in restricted investment accounts for the nine-month period ended 30 September 2022;
- the condensed consolidated statement of cash flows for the nine-month period ended 30 September 2022; and
- notes to the condensed consolidated interim financial information.

The Board of Directors of the Bank is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with FAS 41, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review. However, because of the significance of the matters described in the *Basis for Disclaimer of Conclusion* section of our report, we are unable to complete our review to form a conclusion on the accompanying condensed consolidated interim financial information.

Scope of Review

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

Basis for Disclaimer of Conclusion

1) We draw attention to note 2 to the accompanying condensed consolidated financial information, which describe that during the period ended 30 September 2022 the Group incurred a net loss of US$ 19,367 thousand and, as of that date, the Group's had equity deficiency of US$ 16,794 thousand, accumulated losses of US$ 212,915 thousand and its total assets with maturities up to 12 months fell short of the Group's liabilities with similar maturity by US$ 18,863 thousand. The Group has breached certain regulatory rules as explained in note 3 to the condensed consolidated interim financial information. These conditions, together with the potential effect of the matters described in paragraphs 2 and 3 below, indicate that the going concern assumption used in the preparation of the accompanying condensed consolidated interim financial information is not appropriate. The accompanying condensed consolidated interim financial information does not contain any adjustments that may be warranted if the Group was unable to continue as a going concern nor do they adequately describe the basis for the going concern assumption.

2) As disclosed in note 6 to the condensed consolidated interim financial information, the Group manages certain investments in a fiduciary capacity. The Group was found to be non-compliant with certain regulatory requirements in relation to the admission of certain investors, as well as other fiduciary responsibilities. The Group is exposed to potential claims in relation to these matters for which a provision of US$ 8,519 thousands has been recognised in the condensed consolidated interim financial information. We were not provided with sufficient appropriate audit evidence to assess the amount and the timing of the settlement of these potential claims. Consequently, we are unable to determine the adjustments that may be required to be made in the condensed consolidated interim financial information in relation to this matter.
3) As disclosed in note 15 to the condensed consolidated interim financial information, the Group has issued letters of guarantee to certain investment companies/projects. For one such letter of guarantee, the creditor to the investee has initiated legal action against the investee company and have demanded validation of the corporate guarantees provided by various shareholders of the investee company, including the Group, from which material liabilities could arise. The Group's share of the potential liability arising from this letter of guarantee is US$ 16,116 thousand for which no provision has been recognised as at 30 September 2022. We are unable to determine the adjustments that may be required to be recorded in the condensed consolidated interim financial information in relation to this matter.
4) The Group has wakala contract receivables for which expected credit loss ("ECL") was not recognised in the previous year. The wakala contract receivable at 31 December 2021 is still outstanding and is past due at 30 September 2022. The Bank has made full provision for wakala contract receivable as 30 September 2022, however, has not restated the balances for prior period in line with requirements of Financial Accounting Standard (1) "General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions" and recorded the entire ECL in current period. Accordingly, the expected credit loss for wakala receivable at 31 December 2021 should be increased by US$ 6,670 thousands and retained earnings at 31 December 2021 be reduced by US$ 6,670 thousands.

Disclaimer of Conclusion

Because of the significance of the matters described in the *Basis for Disclaimer of Conclusion* paragraph, we do not express a conclusion on the accompanying 30 September 2022 condensed consolidated interim financial information.

Other Matter

The corresponding figures for the condensed consolidated financial position as at 31 December 2021, the condensed consolidated statements of income, changes in owner's equity, cash flows, and changes in restricted investment accounts have been derived from the Group's annual consolidated financial statements for the year ended 30 June 2021, and condensed consolidated interim financial information for the periods ended 31 March 2021, 30 September 2021 and 31 December 2021 which were audited and reviewed, respectively, by another auditor who expressed a disclaimer opinion and conclusion on those respective statements and information.

KPMG

29 November 2023

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2022

	Note	***30 September 2022 USD '000* (reviewed)**	*31 December 2021 USD '000* **(reviewed)**
ASSETS			
Balances with banks	8	**2,178**	2,863
Wakala placements with financial institutions	8	**228**	-
Investments	9	**18,605**	27,682
Investment in an associate		**-**	219
Wakala contract receivable	10	**-**	6,670
Receivables		**2,107**	4,931
Funding to project companies		**2,283**	2,290
Other assets	11	**1,538**	673
Right-of-use asset		**3,514**	3,090
Property and equipment		**4,128**	4,469
TOTAL ASSETS		**34,581**	**52,887**
LIABILITIES			
Islamic financing payables	12	**13,241**	13,241
Employee accruals		**554**	997
Ijarah liability		**3,722**	3,248
Other liabilities	13	**33,858**	32,082
Total liabilities		**51,375**	**49,568**
EQUITY			
Share capital		**190,000**	190,000
Statutory reserve		**5,859**	5,859
Investment fair value reserve		**262**	1,008
Accumulated losses		**(212,915)**	(193,548)
Total equity		**(16,794)**	**3,319**
TOTAL LIABILITIES AND EQUITY		**34,581**	**52,887**
OFF-BALANCE SHEET ITEMS			
Equity of investment account holders		**116**	135

Chairman

Board Member

The attached notes 1 to 18 form part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED INCOME STATEMENT

Nine month period ended 30 September 2022

	Note	*Three-months ended 30 September* 2022 *USD '000* (reviewed)	*Three-months ended 30 September* 2021 *USD '000* (reviewed)	*Nine-months ended 30 September* 2022 *USD '000* (reviewed)	*Nine-months ended 30 September* 2021 *USD '000* (reviewed)
REVENUE					
Management fee		**18**	71	**3,501**	569
Loss on sale of investments		**-**	-	**-**	127
Finance income		**1**	-	**1**	-
Dividend income		**-**	-	**666**	269
Rental and other income	14	**1,566**	431	**3,822**	2,144
Total revenue		**1,585**	502	**7,990**	3,109
OTHER LOSSES					
Fair value losses on investments carried at fair value through profit or loss - net		**(200)**	(288)	**(1,585)**	(748)
		1,385	214	**6,405**	2,361
EXPENSES					
Staff costs		**756**	577	**2,212**	2,399
Legal and professional fees		**229**	313	**899**	955
Finance expense		**45**	40	**136**	2,301
Depreciation		**91**	110	**321**	367
Other expenses	15	**9,520**	753	**11,135**	2,137
Total expenses		**10,641**	1,793	**14,703**	8,159
LOSS BEFORE IMPAIRMENT PROVISIONS AND SHARE OF LOSS OF AN ASSOCIATE		**(9,256)**	(1,579)	**(8,298)**	(5,798)
Impairment of investments		**(6,479)**	(40)	**(6,700)**	(951)
Provision for credit losses	5	**(3,570)**	(48)	**(4,059)**	(193)
Impairment of property and equipment		-	-	**(202)**	-
Share of loss of an associate - net		-	(82)	**(108)**	(82)
LOSS BEFORE BOARD OF DIRECTORS' REMUNERATION		**(19,305)**	(1,749)	**(19,367)**	(7,024)
NET LOSS FOR THE PERIOD		**(19,305)**	(1,749)	**(19,367)**	(7,024)

Chairman

Board Member

The attached notes 1 to 18 form part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS EQUITY

Nine month period ended 30 September 2022

USD '000

Reviewed	*Share capital*	*Statutory reserve*	*Investment fair value reserve*	*Accumulated losses*	*Total*
Balance at 1 January 2022	190,000	5,859	1,008	(193,548)	3,319
Movement in equity-type investments at fair value through equity	-	-	(746)		(746)
Net loss for the period	-	-	-	(19,367)	(19,367)
Balance at 30 September 2022	**190,000**	**5,859**	**262**	**(212,915)**	**(16,794)**
Reviewed					
Balance at 1 January 2021	190,000	5,859	-	(185,103)	10,756
Net loss for the period	-	-		(7,024)	(7,024)
Movement in equity-type investments at fair value through equity			262		262
Balance at 30 September 2021	190,000	5,859	262	(192,127)	3,994

The attached notes 1 to 18 form part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

Nine month period ended 30 September 2022

30 September 2022 (reviewed)

		Movements during the period		
	Balance at 1 January 2022 USD '000	***Fair value movement USD '000***	***Net income USD '000***	***Balance at 30 September 2022 USD '000***
GCC Pre IPO Fund	**135**	**(19)**	**-**	**116**
Investment in equities				**72**
Other receivables				**44**
Balances with banks				**-**
Total				**116**

30 September 2021 (reviewed)

		Movements during the period		
	Balance at 1 January 2021 USD '000	*Fair value movement USD '000*	*Net Income USD '000*	*Balance at 30 September 2021 USD '000*
GCC Pre IPO Fund	1,214	53	(1,135)	132
Investment in equities				89
Other receivables				42
Balances with banks				1
Total				132

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

The attached notes 1 to 18 form part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Nine month period ended 30 September 2022

	Note	**2022 USD '000 (reviewed)**	*2021 USD '000 (reviewed)*
OPERATING ACTIVITIES			
Net loss for the period		**(19,367)**	(7,024)
Adjustments for:			
Impairment of investments		**6,700**	9,892
Provision for credit losses	5	**3,471**	193
Impairment of property and equipment		**202**	-
Share of loss of an associate - net		**108**	82
Fair value losses on investments carried at fair value through profit or loss - net		**1,585**	748
Loss on sale of investments		**-**	(127)
Depreciation		**321**	367
Finance cost on right-of-use asset		**136**	117
Dividend income		**(666)**	(269)
Operating losses before changes in operating assets and liabilities		**(7,510)**	3,979
Changes in operating assets and liabilities:			
Investments in associates and a joint venture accounted under the equity method		**111**	13,613
Wakala contract receivable		**-**	-
Investments		**(3,587)**	49,535
Receivables		**3,707**	460
Funding to project companies		**17**	141
Property and equipment		**(69)**	-
Other assets		**(871)**	4,046
Employee accruals		**(443)**	112
Islamic financing payables		**-**	(76,842)
Other liabilities		**5,489**	4,663
Proceeds from sale of investment		**5,045**	-
Net cash from / (used in) operating activities		**1,889**	(293)
FINANCING ACTIVITIES			
Murabaha financing to investee company		**(1,404)**	(161)
Rent paid towards right-of-use asset		**(199)**	(185)
Net cash used in financing activities		**(1,603)**	(346)
Investment fair value reserve		**(746)**	262
Foreign currency translation adjustments		**-**	
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(460)**	(377)
Cash and cash equivalents at beginning of the period		**2,863**	849
ECL charged on balances with banks	5	**3**	-
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**2,406**	472
Cash and cash equivalents per the consolidated statement of financial position			
Balances with banks		**2,178**	472
Placements with financial institutions		**228**	-
	8	**2,406**	472

The attached notes 1 to 18 form part of these interim condensed consolidated financial statements.

1 INCORPORATION AND ACTIVITIES

Incorporation

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

Activities

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

The condensed consolidated interim financial information comprise the financial statements of the Bank and its subsidiary companies (collectively, "the Group"). The details of the Bank's subsidiaries are disclosed in note 4.2.

These interim condensed consolidated financial statements were approved by the Bank's Board of Directors on 20 November 2023.

On 23 January 2023, an EGM was held, where it was resolved to change the financial year end from 30 June to 31 December effective from 31 December 2022.

2 FUNDAMENTAL ACCOUNTING ASSUMPTION

Going concern assessment

The Group made a net loss of USD 19,367 thousand, during the period ended 30 September 2022, and as of that date, the Group had equity deficiency of USD 16,794 thousand, accumulated losses of USD 212,915 thousand, and its total liabilities with maturity up to 12 months exceeded its total assets with the same maturity representing a net liquidity gap of USD 20,862 thousand.

During the period, the Bank also breached a number of regulatory requirements including minimum capital adequacy ratios. In our opinion, these conditions indicate the Group is not a going concern.

However, the management has prepared the condensed consolidated interim financial information on a going concern basis for the following reasons:

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

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

2 FUNDAMENTAL ACCOUNTING ASSUMPTION (continued)

Accordingly, the Board of Directors is satisfied that the Group has the resources to continue in business for the foreseeable future and, therefore, the condensed consolidated interim financial information has been prepared on a going concern basis.

As the Group's accumulated losses exceeded its paid-up capital, the Commercial Companies Law ("CCL") requires that the directors should call for an Extraordinary General Meeting ("EGM") at which the shareholders are required to resolve whether to continue with the operations of the Group or to dissolve it before the expiry of its term. In order to address these requirements, the Group had taken the following actions:

- On 21 April 2022, an EGM was held where it was resolved to adjust Group's capital against its accumulated losses where share capital was proposed to be reduced by USD 189,995 thousand after writing off accumulated losses of USD 190,413 thousand and reducing statutory reserve by USD 418 thousand. Additionally, the EGM also resolved to introduce a strategic investor, Esterad Investment Company B.S.C(c), as a new shareholder with a contribution of USD 1 million as paid-up capital and acquiring 99.50% ownership of the Group. On 7 November 2022, the capital reduction and introduction of the new shareholder was approved by the MOIC.

On 20 May 2021, the Bank received a final award issued by the arbitral tribunal related to an arbitration case with a local bank related to short-term Wakala Islamic financing which required the Bank to pay the maturity proceeds of USD 13,391 thousand along with late payment charges of USD 916 thousand, arbitration costs of USD 789 thousand and a daily penalty of USD 1,375 from the date of the judgement.

On 19 September 2022, the Bank entered into a settlement agreement with the above creditor to restructure it’s obligations. The agreement was however subject to certain conditions precedent which was fulfilled during the subsequent periods. Out of the outstanding balance, an amount of USD 9.6 million was converted to AT1 capital in the subsequent period after obtaining the necessary regulatory approvals.

The Bank had issued a letter of guarantee to a certain investment company/project valued at 130% of the Bank's share in the company's outstanding obligation (including principal and accrued profits) of USD 16,116 thousand (30 June 2021: USD 15,232 thousand). In addition to the corporate guarantees, the investee company has also pledged its primary asset to the lender against these obligations. While the depreciated cost of the asset exceeds the outstanding obligation of the investee company, the fair value of the asset is difficult to ascertain due to the operations of the investee company being on halt due to current economic conditions. An independent valuation of the operations was performed as of 30 September 2022, which showed a increase in valuation as compared to the earlier valuations.

The approval from MOIC followed by the acquisition by a strategic investor will enable the Group to continue as a going concern and to negotiate settlement of its obligations to third parties as and when they fall due. Additionally, the shareholders or the regulators did not have any intention to liquidate the Bank, and these interim consolidated financial statements have been prepared on a going concern basis. In the event of a distress sale of the Group's assets, their net realisable value might not approximate their fair value as at 30 September 2022.

3 REGULATORY NON-COMPLIANCE

The Bank did not comply with the CBB's capital requirements for minimum shareholders' equity, total CAR, Tier 1 and CET 1 CAR, NSFR, LCR, and other associated regulated requirements which are required for Bahrani Islamic wholesale bank during the period ended 30 September 2022.

Due to breach in CBB’s capital adequacy requirements, the CBB has imposed certain restrictions on the Bank’s investment banking activities where the Bank is prohibited from undertaking any new investment exposure without CBB’s prior approval. The Bank has initiated various actions, including increasing capital, exit from existing investments and re-licensing the Bank in order to regain compliance and restart new business activity.

Subsequent to the period, the Bank received an exemption from the CBB for the breach in the Capital Adequacy Ratio in relation to paragraphs LM-11.1.4, LM-12.3.3 and CM-2.5.3 of the CBB Rulebook and also obtained the approval to increase the Regulatory Capital by issuing AT1 Sukuk.

4 BASIS OF PREPARATION AND ACCOUNTING POLICIES

4.1 Basis of preparation

The condensed consolidated interim financial information of the Group has been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain ("CBB"). These rules and regulations require the adoption of all Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI).

The accounting policies used in the preparation of annual audited consolidated financial information of the Group for the year ended 30 June 2021 and 30 June 2022 were in accordance with FAS. The Group's interim financial information for the nine months ended 30 September 2022 has been prepared in accordance with FAS issued by AAOIFI.

This condensed consolidated interim financial information is reviewed and not audited. The condensed consolidated interim financial information does not include all the information required for full annual financial statements and should be read in conjunction with the Group's last audited consolidated financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual audited consolidated financial statements.

The corresponding figures for the condensed consolidated statement of financial position have been extracted from the Group's condensed consolidated interim financial information for the period ended 31 December 2021 and the corresponding figures for the condensed consolidated statements of income, changes in owners equity, cash flows, and changes in off-balance sheet equity of investment account holders have been derived from the Group's annual consolidated financial statements for the yaer ended 30 June 2021, and condensed consolidated interim financial information for the periods ended 31 March 2021, and 30 September 2021.

4.2 Basis of measurement

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

4.3 Significant accounting policies

The accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information is the same as those used in the preparation of the Group's last audited consolidated financial statements, except those arising from adoption of the following standards and amendments to standards effective from 1 January 2022. The impact of adoption of these standards and amendments is set out below.

4 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

4.3 Significant accounting policies (continued)

A New standards, amendments and interpetations issued and effective for annual periods beginning on or after 1 January 2022:

(i) FAS 38 Wa'ad, Khiyar and Tahawwut

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

This standard classifies Wa'ad and Khiyar arrangements into two categories as follows:

a) "ancillary Wa'ad or Khiyar" which is related to a structure of transaction carried out using other products i.e. Murabaha, Ijarah Muntahia Bittamleek, etc.; and

b) "product Wa'ad and Khiyar" which is used as a stand-alone Shariah compliant arrangement.

Further, the standard prescribes accounting for constructive obligations and constructive rights arising from the stand-alone Wa'ad and Khiyar products. There was no material impact on the Group upon adoption of this standard.

B New standards, amendments and interpretations issued but not yet effective

(i) FAS 39 - Financial Reporting for Zakah

AAOIFI has issued FAS 39 Financial Reporting for Zakah in 2021. The objective of this standard is to establish principles of financial reporting related to Zakah attributable to different stakeholders of an Islamic financial Institution. This standard supersedes FAS 9 Zakah and is effective for the financial reporting periods beginning on or after 1 January 2023 with an option to early adopt.

This standard shall apply to institution with regard to the recognition, presentation and disclosure of Zakah attributable to relevant stakeholders. While computation of Zakah shall be applicable individually to each institution within the Group, this standard shall be applicable on all consolidated and separate / standalone financial statements of an institution.

This standard does not prescribe the method for determining the Zakah base and measuring Zakah due for a period. An institution shall refer to relevant authoritative guidance for determination of Zakah base and to measure Zakah due for the period. The Group is assessing the impact of adoption of this standard. The Group is assessing the impact of adoption of this standard.

(ii) FAS 1 General Presentation and Disclosures in the Financial Statements

AAOIFI has issued the revised FAS 1 General Presentation and Disclosures in the Financial Statements in 2021. This standard describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. It is applicable to all the Islamic Financial Institutions and other institutions following AAOIFI FAS's. This standard is effective for the financial reporting periods beginning on or after 1 January 2023 with an option to early adopt.

The revision of FAS 1 is in line with the modifications made to the AAOIFI conceptual framework for financial reporting. Some of the significant revisions to the standard are as follows:

a) Revised conceptual framework is now integral part of the AAOIFI FAS's;

b) Definition of Quasi equity is introduced;

c) Definitions have been modified and improved;

d) Concept of comprehensive income has been introduced;

4 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

4.3 Significant accounting policies (continued)

e) Institutions other than Banking institutions are allowed to classify assets and liabilities as current and non-current;

f) Disclosure of Zakah and Charity have been relocated to the notes;

g) True and fair override has been introduced;

h) Treatment for change in accounting policies, change in estimates and correction of errors has been introduced;

i) Disclosures of related parties, subsequent events and going concern have been improved;

j) Improvement in reporting for foreign currency, segment reporting;

k) Presentation and disclosure requirements have been divided into three parts. First part is applicable to all institutions, second part is applicable only to banks and similar IFI's and third part prescribes the authoritative status, effective date an amendments to other AAOIFI FAS's; and

l) The illustrative financial statements are not part of this standard and will be issued separately. The Group is assessing the impact of adoption of this standard and expects changes in certain presentation and disclosures in its consolidated financial statements.

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

4.4 Significant accounting judgements and estimates

The condensed consolidated interim 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.

Russia-Ukraine conflict

On 24 February 2022, Russia started an invasion on Ukraine (the "conflict"). Owing to this various countries and international bodies have imposed trade and financial sanctions on Russia and Belarus. Further, various organisations have discontinued their operations in Russia. This conflict has resulted in an economic downturn and increased volatility in commodity prices due to disruption of supply chain. The management has carried out an assessment of its portfolio and has concluded that it does not have any direct or indirect exposures to / from the impacted countries. At this stage it is difficult to quantify the full impact of this conflict since it depends largely on the nature and duration of uncertain and unpredictable events, such as further military action, additional sanctions, and reactions to ongoing developments by global financial markets. The management will continue to closely monitor impact of this evolving situation on its portfolio to assess indirect impact, if any. As at 31 December 2022 the Group does not have a material impact of this conflict.

(a) Judgements & Estimates

Establishing the criteria for determining whether credit risk on an exposure subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL.

Classification of investments

Management decides whether an acquisition of a financial asset should be classified as an "equity-type investment at fair value through income" or "equity-type investment at fair value through equity". 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.

4 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

4.4 Significant accounting judgements and estimates (continued)

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, liquidity discounts, etc. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment on assets carried at amortised cost

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

Impairment of equity-type investments at fair value through equity

The Group treats investments carried at fair value through equity as impaired when there is a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is ‘significant’ or ‘prolonged’ requires judgment. The Group evaluates factors, such as the historical share price volatility for comparable quoted equities and future cash flows and the discount factors for comparable unquoted equities.

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

Consolidation of special purpose entities (SPEs)

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

Recognition and measurement of provision and contingencies

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.

5 IMPAIRMENT OF FINANCIAL ASSETS

Financial contracts consist of balances with banks, Murabaha financing to investee companies, wakala contract receivable, receivables, funding to project companies, certain other assets and contingencies and commitments. Balances relating to these contracts are stated net of allowance for credit losses. The Group applies three-stage approach to measure ECL on financial assets carried at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: Twelve months ECL

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

Stage 2: Lifetime ECL – not credit impaired

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

Stage 3: Lifetime ECL – credit impaired

Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For Stage 3 financial contracts, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract.

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

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

	30 September 2022			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Reviewed	***USD '000***	***USD '000***	***USD '000***	***USD '000***
Exposures subject to ECL				
Balances and placements with banks	2,409	-	158	2,567
Murabaha financing to investee companies	-	-	3,107	3,107
Wakala contract receivable	-	-	13,341	13,341
Receivables	1,392	45	6,770	8,207
Funding to project companies	-	3,261	1,130	4,391
Other assets	346	1,225	10,553	12,124
	4,147	**4,531**	**35,059**	**43,737**
Guarantees and commitments	3,009	10,415	26,794	40,218
	7,156	**14,946**	**61,853**	**83,955**

5 IMPAIRMENT OF FINANCIAL ASSETS (continued)

Stage 3: Lifetime ECL – credit impaired (continued)

	31 December 2021			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Unreviewed	*USD '000*	*USD '000*	*USD '000*	*USD '000*
Exposures subject to ECL				
Balances and placements with banks	2,869	-	158	3,027
Murabaha financing to investee companies	-	-	1,703	1,703
Wakala contract receivable	-	-	13,341	13,341
Receivables	-	-	11,914	11,914
Funding to project companies	-	3,272	1,136	4,408
Other assets	2,795	1,645	6,813	11,253
	5,664	4,917	35,065	45,646
Guarantees and commitments	4,147	11,220	26,860	42,227
	9,811	16,137	61,925	87,873

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

Unreviewed	***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 Jan 2022				
Balances and placements with banks	(6)	-	(158)	(164)
Murabaha financing to investee companies	-	-	(1,703)	(1,703)
Wakala contract receivable	-	-	(6,671)	(6,671)
Receivables	-	-	(6,983)	(6,983)
Funding to project companies	-	(982)	(1,136)	(2,118)
Other assets	(79)	(1,125)	(9,376)	(10,580)
Guarantees and commitments	(10)	(29)	(14,686)	(14,725)
	(95)	**(2,136)**	**(40,713)**	**(42,944)**
Reversal / (charge) during the period				
Balances and placements with banks	3	-	-	3
Murabaha financing to investee companies	-	-	(1,404)	(1,404)
Wakala contract receivable	-	-	(6,670)	(6,670)
Receivables	(80)	(5)	968	883
Funding to project companies	-	4	6	10
Other assets	79	234	(319)	(6)
Guarantees and commitments	2	3	3,708	3,713
	4	**236**	**(3,711)**	**(3,471)**
Amount written off				
Receivables			(530)	(530)
Other assets		(58)		(58)
	-	**(58)**	**(530)**	**(588)**
Reviewed				
Balance at 30 September 2022				
Balances and placements with banks	(3)	-	(158)	(161)
Murabaha financing to investee companies	-	-	(3,107)	(3,107)
Wakala contract receivable	-	-	(13,341)	(13,341)
Receivables	(80)	(5)	(6,015)	(6,100)
Funding to project companies	-	(978)	(1,130)	(2,108)
Other assets	-	(891)	(9,695)	(10,586)
Guarantees and commitments	(8)	(26)	(10,978)	(11,012)
As at 30 September 2022 (reviewed)	**(91)**	**(1,900)**	**(44,424)**	**(46,415)**

5 IMPAIRMENT OF FINANCIAL ASSETS (continued)

Stage 3: Lifetime ECL – credit impaired (continued)

	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	USD '000	*USD '000*	*USD '000*	*USD '000*
Balance at 1 January 2021				
Balances and placements with banks	(2)	-	(158)	(160)
Murabaha financing to investee companies	-	(349)	(914)	(1,263)
Wakala contract receivable	-	-	(6,671)	(6,671)
Receivables	(59)	(4)	(8,388)	(8,451)
Funding to project companies	-	(1,012)	(931)	(1,943)
Other assets	-	(1,973)	(9,065)	(11,038)
Guarantees and commitments	(10)	(910)	(11,957)	(12,877)
	(71)	**(4,248)**	**(38,084)**	**(42,403)**
Reversal / (charge) during the period				
Balances and placements with banks	2	-	-	2
Murabaha financing to investee companies	-	349	(597)	(248)
Wakala contract receivable	-	-	-	-
Receivables	59	(13)	1,367	1,413
Funding to project companies	-	31	(199)	(168)
Other assets	-	847	6	853
Guarantees and commitments	-	881	(2,926)	(2,045)
	61	**2,095**	**(2,349)**	**(193)**
Balance at 30 September 2021				
Balances and placements with banks	-	-	(158)	(158)
Murabaha financing to investee companies	-	-	(1,511)	(1,511)
Wakala contract receivable	-	-	(6,671)	(6,671)
Receivables	-	(17)	(7,021)	(7,038)
Funding to project companies	-	(981)	(1,130)	(2,111)
Other assets	-	(1,126)	(9,059)	(10,185)
Guarantees and commitments	(10)	(29)	(14,883)	(14,922)
As at 30 September 2021 (reviewed)	**(10)**	**(2,153)**	**(40,433)**	**(42,596)**

6 FIDUCIARY ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these condensed consolidated interim financial statements. At the reporting date, the Group had assets under management of US$ 463 million (31 December 2021: US$ 541 million). During the period, the Group had charged management fees amounting to US$ 3,501 thousands (30 September 2021: US$ 569 thousands) to its assets under management.

7 RELATED PARTY TRANSACTIONS AND BALANCES

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

Balances with related parties are as follows:

	30 September 2022 USD '000 Reviewed	*31 December 2021 USD '000 Reviewed*
Assets:		
Investments	**710**	3,355
Investment in an associate	**-**	219
Other assets	**103**	109
Liabilities:		
Employee accruals	**311**	684
Other liabilities	**4,063**	4,753
Commitments and contingencies	**-**	1,081

Transactions with related parties during the period were as follows:

	Nine-months ended	
	30 September 2022 USD '000 Reviewed	*30 September 2021 USD '000 Unreviewed*
Other losses		
Fair value losses on investments carried at fair value through profit or loss - net	**(2,645)**	(790)
Expenses		
Legal and professional fees	**210**	161
Other expenses	**932**	587
Provision for credit losses	**(692)**	(17)
Share of loss of an associate - net	**(108)**	-

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

	Nine-months ended	
	30 September 2022 USD '000 Reviewed	*30 September 2021 USD '000 Unreviewed*
Salaries and other short term benefits	**501**	401
Post-employment benefits	**70**	25
	571	426

8 BALANCES WITH BANKS & WAKALA PLACEMENTS WITH FINANCIAL INSTITUTIONS

	30 September 2022 USD '000 Reviewed	*31 December 2021 USD '000 Reviewed*
Balances with banks	**2,339**	3,027
Less: ECL provision	**(161)**	(164)
	2,178	2,863
Wakala placements with financial institutions	**228**	-
Net cash and cash equivalents	**2,406**	2,863

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

9 INVESTMENTS

	30 September 2022 USD '000 (Reviewed)	*31 December 2021 USD '000 Reviewed*
Equity-type Investments at fair value through income		
Quoted equities held for trading	**34**	9
Unquoted equities	**11,445**	14,515
	11,479	14,524
Equity-type Investments at fair value through equity		
Unquoted equities	**19,230**	19,917
Subordinated mudaraba	**9,356**	9,356
Short term liquidity certificates	**1,852**	690
	30,438	29,963
Less: impairment provision	**(23,312)**	(16,805)
	7,126	13,158
	18,605	27,682

Short term liquidity certificates comprise Shari'a compliant asset backed certificates for which the carrying value approximates fair value.

The Mudaraba represents the Group's USD 10,000 thousand interest in the assets of a trust established as part of the restructuring agreement signed on 30 June 2021. Accoordingly the Group transferred USD 10,000 thousand in additional assets to the trust to provide first-loss protection against any devaluation in other investments transferred to the trust as part of the settlement. As part of the restructuring agreement the trust has a put option to oblige the Group to purchase the investments at fair value on settlement date.

9 *INVESTMENTS (continued)*

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

	30 September 2022 USD '000 (Reviewed)	*31 December 2021 USD '000 Reviewed*
Provisions at the beginning of the year	**(16,723)**	(45,209)
Sale of investments	**-**	28,931
Impairment charged	**(6,589)**	(445)
Provisions at the end of the year	**(23,312)**	(16,723)

The following market segments for investment:

	30 September 2022 USD '000 (Reviewed)	*31 December 2021 USD '000 Reviewed*
Real estate projects	**3,493**	3,802
Private equity	**15,112**	23,880
	18,605	**27,682**

10 WAKALA CONTRACT RECEIVABLE

Wakala contract receivable represents USD 13,341 thousand of short-term trade finance deals placed with Trade Finance Corporation ("TFC") through a locally incorporated bank ("Wakil") at an expected profit rate of 6.5% per annum with maturities ranging between 90 to 150 days. The Group has recognised an ECL of 100% (31 December 2021: 50%) under stage 3.

The Group suspended accruing profit on its wakala contract receivable as the Wakil has failed to redeem the Group's wakala upon their request. The Group has a corresponding short-term borrowing from the Wakil under an unrestricted wakala agreement amounting USD 13,241 thousand (refer note 12).

11 OTHER ASSETS

	30 September 2022 USD '000 Reviewed	*31 December 2021 USD '000 Reviewed*
Advances to acquire investments	**6,295**	6,295
Project costs recoverable	**3,203**	2,481
Dividend receivable	**444**	444
Prepayments	**180**	33
Other receivables	**2,002**	2,001
	12,124	11,254
Less: ECL provision	**(10,586)**	(10,581)
	1,538	673

12 ISLAMIC FINANCING PAYABLES

		30 September 2022 Reviewed	*31 December 2021 Reviewed*
Short-term Islamic payables:	Note	***USD '000***	*USD '000*
Wakala payable to financial institution	12.1	**13,241**	13,241
		13,241	13,241

12.1 The Bank is undergoing a legal case to net off the payable amount to a local bank against the Wakala contract receivable. On 20 May 2021, the BCDR issued a judgement based on which the Bank has been ordered to pay USD 13,391 thousand principal, late payment charges of USD 1,600 thousand, and arbitration costs of USD 789 thousand and a daily penalty of USD 1,375 from the date of the judgement.

On 19 September 2022, the Bank entered into a settlement agreement with the above creditor to restructure it’s obligations. The agreement was however subject to certain conditions precedent which was fulfilled during the subsequent periods. Out of the outstanding balance, an amount of USD 9.6 million was converted to AT1 capital in the subsequent period after obtaining the necessary regulatory approvals.

13 OTHER LIABILITIES

	30 September 2022 USD '000 Reviewed	*31 December 2021 USD '000 Reviewed*
Accounts payable	**5,354**	6,055
Provisions and accruals*	**11,210**	642
Deferred income	**21**	1,165
Provision against guarantees **	**8,995**	14,730
Payable under settlement agreement ***	**8,274**	9,261
Other	**4**	229
	33,858	32,082

* This mainly includes provision for potential claims from investors of some project companies where the Bank was found to be non-compliant with certain regulatory requirements in relation to the admission certain investors.

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

The amount reported in the Group’s interim consolidated statement of financial position sheet related to such claims under other liabilities was USD 10,282 thousand (31 December 2021: USD 14,691 thousand).

*** Amount payable under settlement agreement represents past due profits on Islamic financing payable settled as of 30 June 2021. The amount is due on 30 June 2025. However, a partial settlement was made during the period.

14 RENTAL AND OTHER INCOME

	Reviewed	*Unreviewed*
	Nine-months ended	
	30 September 2022	*30 September 2021*
	USD '000	*USD '000*
Rental income	**2,098**	981
Other	**1,724**	1,163
	3,822	2,144

15 OTHER EXPENSES

	Reviewed	*Unreviewed*
	Nine-months ended	
	30 September 2022	*30 September 2021*
	USD '000	*USD '000*
Office expenses	**799**	1,042
Publicity, conferences and promotion	**71**	41
Board of directors and Shari'ah supervisory board fees and expenses	**225**	368
Exchange loss	**86**	7
Project management costs*	**1,221**	624
Provision for litigation and others (note 13)	**8,644**	-
Other	**89**	55
	11,135	2,137

* This mainly pertains to unrecoverable expenses incurred on behalf of project companies to support their operations.

16 COMMITMENTS AND CONTINGENCIES

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

	30 September 2022	*31 December 2021*
	USD '000	*USD '000*
	Reviewed	*Reviewed*
Letters of guarantee *	**30,218**	31,832
Commitments to invest	**10,000**	10,395
	40,218	42,227

* As at 30 September 2022, the Group has a provision amounting to USD 11.01 million (31 December 2021: 14.73 million) on the outstanding letters of guarantee (note 13).

17 FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments held by the Group as at 30 September 2022 and 31 December 2021:

	30 September 2022			
Reviewed	***Equity-at fair through profit or loss USD '000***	***Equity-type at fair value through equity USD '000***	***Amortised cost USD '000***	***Total USD '000***
ASSETS				
Balances with banks	**-**	**-**	**2,178**	**2,178**
Investments	**11,480**	**7,125**	**-**	**18,605**
Receivables	**-**	**-**	**2,107**	**2,107**
Funding to project companies	**-**	**-**	**2,283**	**2,283**
Other assets	**-**	**-**	**1,358**	**1,358**
TOTAL FINANCIAL ASSETS	**11,480**	**7,125**	**7,926**	**26,531**
LIABILITIES				
Islamic financing payables	**-**	**-**	**13,241**	**13,241**
Other liabilities	**-**	**-**	**13,628**	**13,628**
TOTAL FINANCIAL LIABILITIES	**-**	**-**	**26,869**	**26,869**
Off-balance sheet				
Equity of investment account holders	**-**	**72**	**44**	**116**

	31 December 2021			
Reviewed	*Equity-at fair through profit or loss USD '000*	*Equity-type at fair value through equity USD '000*	*Amortised cost USD '000*	*Total USD '000*
ASSETS				
Balances with banks	-	-	2,863	2,863
Investments	14,524	13,158	-	27,682
Wakala contract receivable	-	-	6,670	6,670
Receivables	-	-	4,931	4,931
Funding to project companies	-	-	2,290	2,290
Other assets	-	-	640	640
TOTAL FINANCIAL ASSETS	14,524	13,158	17,394	45,076
LIABILITIES				
Islamic financing payables	-	-	13,241	13,241
Other liabilities	-	-	15,316	15,316
TOTAL FINANCIAL LIABILITIES	-	-	28,557	28,557
Off-balance sheet				
Equity of investment account holders	-	91	44	135

17 FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

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

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

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

At 30 September 2022 and 31 December 2021, all the financial liabilities of the Group are classified under 'amortised cost'.

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

Type	***Valuation technique***	***Significant unobservable input***	***Inter-relationship between significant unobservable inputs and fair value measurement***
Equity investments	Discounted cash flow	Marketability factor and Discount rate	Ability of Group to exit these investments and their impact on the overall value as these are unquoted investments.

The potential effect of change in assumptions used above would have the following effects.

Fair value hierarchy of investments

30 September 2022	***Level 1 USD '000***	***Level 2 USD '000***	***Level 3 USD '000***	***Total USD '000***
Investments:				
Held for trading	**34**	**-**	**-**	**34**
Equity-type at fair value through profit or loss	**-**	**-**	**11,446**	**11,446**
Equity-type at fair value through equity	**-**	**-**	**7,125**	**7,125**
	34	**-**	**18,571**	**18,605**

31 December 2021	*Level 1 USD '000*	*Level 2 USD '000*	*Level 3 USD '000*	*Total USD '000*
Investments:				
Held for trading	9	-	-	9
Equity-type at fair value through profit or loss	-	-	14,515	14,515
Equity-type at fair value through equity	-	-	13,158	13,158
	9	-	27,673	27,682

17 FINANCIAL INSTRUMENTS (continued)

The effect on fair value through equity (as a result of a change in the net asset value of equity investments) due to a reasonable possible positive change (i.e.+10%) in the value of individual investments, with all other variables held constant, is USD 593 thousand (30 September 2021: USD 362 thousand).

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

	30 September 2022 USD '000 Reviewed	*31 December 2021 USD '000 Reviewed*
At 1 January	**14,515**	22,726
Fair value (losses) / gains recognised in the consolidated statement of income - net	**(1,610)**	(525)
Sale of investments during the year	**(2,406)**	(7,686)
Addition of investmentd during the year	**946**	-
At 30 September	**11,445**	14,515

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

	30 September 2022 USD '000 Reviewed	*31 December 2021 USD '000 Reviewed*
At 1 January	**13,158**	36,726
Additions during the year	**1,303**	9,546
Impairment recognised during the year	**(6,589)**	(445)
Fair value reserve	**(746)**	1,008
Sale of investments during the year	**-**	(1,179)
Transfer of settlement of debt	**-**	(32,498)
At 31 December	**7,126**	13,158

Fair value hierarchy (continued)

The effect on consolidated statement of income (as a result of a change in the net asset value of equity investments) due to a reasonable possible negative change (i.e.-10%) in the value of individual investments, with all other variables held constant, is USD 644 thousand (30 September 2021: USD 542 thousand), after exhausting the fair value through equity (if any).

The effect on fair value through income (as a result of a change in the net asset value of equity investments) due to a reasonable possible positive change (i.e.+10%) in the value of individual investments, with all other variables held constant, is USD 1446 thousand (30 September 2021: USD 1,147 thousand).

The effect on consolidated statement of income (as a result of a change in the net asset value of equity investments) due to a reasonable possible negative change (i.e.-10%) in the value of individual investments, with all other variables held constant, is USD 1446 thousand (30 September 2021: USD 1,101 thousand), after exhausting the fair value through income (if any).

18 SUBSEQUENT EVENT

On 21 April 2022, an EGM was held where it was resolved to adjust Group's capital against its accumulated losses where share capital was proposed to be reduced by USD 189,995 thousand after writing off accumulated losses of USD 190,413 thousand and reducing statutory reserve by USD 418 thousand. Additionally, the EGM also resolved to introduce a strategic investor, Esterad Investment Company B.S.C(c), as a new shareholder with a contribution of USD 1 million as paid-up capital and acquiring 99.50% ownership of the Group. On 7 November 2022, the capital reduction and introduction of the new shareholder was approved by the MOIC.

On 19 September 2022, the Bank entered into a settlement agreement with a creditor to restructure it's outstanding obligations. The agreement was however subject to certain conditions precedent which was fulfilled during the subsequent periods. Out of the outstanding balance, an amount of USD 9.6 million was converted to AT1 capital in the subsequent period after obtaining the necessary regulatory approvals.

Subsequent to the period, the Bank received an exemption from the CBB for the breach in the Capital Adequacy Ratio in relation to paragraphs LM-11.1.4, LM-12.3.3 and CM-2.5.3 of the CBB Rulebook and also obtained the approval to increase the Regulatory Capital by issuing AT1 Sukuk.

Subsequent to the period, the Bank commenced discussions with the Central Bank of Bahrain and other stakeholders regarding capital restructuring and execution of a planned merger with Esterad Investment Company B.S.C. Upto date of the issuance of this condensed consolidated interim financial information, the Bank issued AT1 Sukuks at a face value of USD 17 million to its existing AUM investors and creditors.