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

SHARI'A SUPERVISORY BOARD REPORT
CHAIRMAN'S STATEMENT
INDEPENDENT AUDITORS' REPORT
AND CONSOLIDATED FINANCIAL STATEMENTS

31 December 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)
Chief Executive Officer	:	Robert Coleman Wages
Auditors	:	KPMG Fakhro

VENTURE CAPITAL BANK

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, I would like to present the annual report and consolidated financial statements of Venture Capital Bank (VC Bank) for the fiscal year ended 31 December 2022.

Challenges continued in 2022, however the Bank remained resilient, taking measures to address legacy issues, reduce operating costs, and build a strong foundation for future sustainable success.

The equity of the Bank continued to decline during the reporting period due to operational expenses and valuation declines because of the COVID situation. The capital adequacy-related regulatory restrictions imposed by the CBB meant that no new investment banking transactions were conducted during the year, however the Bank remained focused on strengthening its core-performing investments and generating favorable exits for investors.

Performance

The Bank reported a loss of USD 20.1 million, (2021: USD 8.4 million) during the fiscal year 2022. Total revenue was USD 6.7 million compared to USD 3.5 million in the prior period, while operating expenses, including finance costs, increased to USD 16.3 million from USD 10.9 million the previous year. The Bank recorded a fair value loss of USD 1.5 million compared to a fair value loss of USD 0.5 million in the previous year. Impairment losses were USD 10.6 million compared to USD 1 million in the previous year. The Bank's total assets during the period ended 31 December 2022 decreased to USD 34.4 million from USD 52.9 million, this was predominantly due to exit of certain investments during the period. Total liabilities increased to USD 50.7 million compared to USD 49.6 million in the prior year due to settlement of certain debts during the period and creating additional provisions for anticipated liabilities. The net Shareholders' Equity stood at a negative USD 16.3 million as compared to a positive USD 3.3 million in the previous year. This was mainly due to the recognition of additional provisions and impairments. Fiscal Year 2022 also saw a capital reduction for the Bank, wherein the Share Capital of the Bank was reduced from USD 190 million to USD 1 million.

VENTURE CAPITAL BANK

Restructuring

I am pleased to report that the final acquisition of the Bank by Esterad Investment Company B.S.C ("Esterad") was completed and entered the Sijilat registry on 7th November 2022. Post-acquisition, the bank commenced a restructuring, to reduce operating costs, address legacy issues, and bring the bank back into compliance with regulatory authorities. A new Board of Directors was appointed, and key management positions were instated during the year. The Bank also commenced discussions with the Central Bank of Bahrain and other stakeholders regarding capital restructuring and the execution of a planned reverse merger with Esterad. As of the date of issuance of this consolidated financial information, the Bank issued AT1 Sukuks at a face value of USD 17 million to its existing AUM investors and creditors.

Looking Ahead

The acquisition and planned merger with Esterad represent a new era of growth for the bank. Esterad is one of the oldest investment firms in the Kingdom with a long track record of secure investments and a robust financial and shareholder base, and, as the Bank's new major shareholder, is set to support the bank as we strive to return to profitability. Although we expect the challenges of 2022 to continue into 2023, we remain optimistic that VC Bank can recommence its investment banking activities, generate revenue and cash flow. The Board and Management will continue to work together to address all existing issues and plan the future, with the objective of re-establishing Venture Capital Bank as a soundly governed, leading regional financial institution.

Acknowledgements

In conclusion, on behalf of the Board of Directors, I extend my sincere appreciation to His Majesty King Hamad bin Isa Al Khalifa and His Royal Highness Prince Salman bin Hamad Al Khalifa, for their wise leadership and reform programme, and for their continued encouragement to the growth and development of the Islamic banking sector. Acknowledgements are also due to the Central Bank of Bahrain, the Ministry of Industry, Commerce & Tourism, and other Government institutions, for their continued and valued 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 dedication and professionalism in yet another extremely challenging year. May Allah guide us on the proper path and lead us towards prosperity.

VENTURE CAPITAL BANK

Remuneration Details

As part of the Bank's obligation to maintain utmost transparency with our valued shareholders, we are pleased to attach the table below that shows the remuneration of members of the Board of Directors and the Executive Management for the fiscal year ending 31st December 2022.

First: Board of directors' remuneration details:

USD '000

Name	Fixed remunerations				Variable remunerations				End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Others*	Total	Remunerations of the chairman and BOD	Incentive plans	Others**	Total			
First: Independent Directors:											
1- -	-	-	-	-	-	-	-	-	-	-	-
2 -	-	-	-	-	-	-	-	-	-	-	-
Second: Non-Executive Directors:											
1-Abdulfatah Marafi	-	19	-	19	-	-	-	-	-	-	-
2- Mohamed Al Kandari	-	13	-	13	-	-	-	-	-	-	-
3- Mohammed Ahmed Jumaan	-	21	-	21	-	-	-	-	-	-	-
4- Adel Abunayyan	-	25	-	25	-	-	-	-	-	-	-
5- Issam Al Tawari	-	33	-	33	-	-	-	-	-	-	-
6- Khalil Dahlawi	-	33	-	33	-	-	-	-	-	-	-
7- Adwan Al Adwani	-	14	-	14	-	-	-	-	-	-	-
8- Marwan Al Ghurair	-	17	-	17	-	-	-	-	-	-	-
Third: Executive Directors:											
1- -	-	-	-	-	-	-	-	-	-	-	-
2 -	-	-	-	-	-	-	-	-	-	-	-
Total	-	175	-	175	-	-	-	-	-	-	-

Second: Executive management remuneration details

USD '000

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2022	Aggregate Amount
Top 6 remunerations for executives, including CEO* and Senior Financial Officer**	974	-	65	1,039

Shaikh Mohamed Duaij Khalifa Alkhalifa
Chairman of the Board

Robert C. Wages
Chief Executive Officer and Director

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Licensed as an Islamic Wholesale Bank by the CBB.

VENTURE CAPITAL BANK

Date: 24 October 2023

Shari'ah Supervisory Board Report

Of *Venture Capital Bank B.S.C ©*

In compliance with our appointment obligations, we hereby present the following report pertaining to the audited Financial Statements for the year ended December 31, 2022:

BANK PERFORMANCE

During the year concluding December 31, 2022, the Shari'ah Supervisory Board (SSB) assessed all investments, contracts, and agreements undertaken by Venture Capital Bank B.S.C (C) (referred to as "the Bank"). Our primary objective was to evaluate the extent to which these financial activities adhered to the principles of Islamic Shari'ah, including the specific fatwas and guidelines issued by the SSB.

RESPECTIVE RESPONSIBILITIES OF THE BANK'S MANAGEMENT AND THE SHARI'AH SUPERVISORY BOARD

The Bank's management bears responsibility for ensuring compliance with the principles of Islamic Shari'ah, including the specific fatwas and guidelines issued by the SSB. The SSB responsibility is to independently evaluates the Bank's investments, contracts, and agreements made during the fiscal year ended December 31, 2022.

OUR Opinion:

1. Overall, we have determined that the Bank's contracts, transactions, and deals during the year ended of December 31, 2022, align with the rules and principles of Islamic Shari'ah.
2. The allocation of profit and the handling of losses related to investment accounts also adhere to Islamic Shari'ah principles.
3. The calculation of Zakat also complies with the rules and principles of Islamic Shari'ah. The Bank has utilized the Net Asset Method, as outlined in the AAOIFI standards. It is important to note that the responsibility for the payment of Zakat lies with the shareholders.
4. No revenues were generated during the year from sources that are not in compliance with the principles and regulations of Islamic law.
   Regarding the Bank's investments, no existing investments were divested during the period. However, we would like to emphasize that the investments in "Gulf One Capital, IT works, Oba, and Jafcco" have not yet been converted to align with Shari'ah Principles, despite the SSB's resolution requesting their disposal.

We humbly implore divine blessings and prosperity.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.

Sh. Dr. Osama Bahar Member	Sh. Dr. Nedham Yaqoobi Chairman	Sh. Dr. Essa Zaki Essa Member

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CR No. 6220 - 2

Independent auditors' report

To the Shareholders of

Venture Capital Bank BSC (C)
P.O. Box 11755
Manama - Kingdom of Bahrain

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of Venture Capital Bank B.S.C. (C) (the "Bank"), and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statements of income, changes in owner's equity, cash flows, and changes in restricted investment accounts for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

We do not express an opinion on the accompanying consolidated financial statements of the Bank. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report and their possible cumulative effect on the consolidated financial statements, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

Except for the non-compliance which is mentioned in the accompanying Shari'ah Supervisory Board Report related to some investments which are not aligned to Shari'ah Principles, in our opinion, the Group has complied with the Islamic Shariah Principles and Rules as determined by the Group's Shariah Supervisory Board during the year ended 31 December 2022.

Basis for Disclaimer of Opinion

1) We draw attention to note 2 to the accompanying consolidated financial statements, which describes that during the year ended 31 December 2022, the Group incurred a net loss of US$ 20,123 thousand and, as of that date, the Group had accumulated losses of US$ 23,258 thousand resulting in equity deficiency of US$ 16,275 thousand, and its total assets with maturities up to 12 months fell short of the Group's liabilities with similar maturity by US$ 22,766 thousand. Furthermore, the Group has breached certain regulatory requirements as explained in note 2 to the consolidated financial statements. 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 consolidated financial statements is not appropriate. The accompanying consolidated financial statements do not contain any adjustments that may be warranted if the Group was unable to continue as a going concern nor do they adequately describe the basis for the going concern assumption.
2) As disclosed in note 34 to the consolidated financial statements, 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 consolidated financial statements. 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 maybe required to be made in the consolidated financial statements in relation to this matter.
3) As disclosed in note 35 to the consolidated financial statements, the Group had 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 in the consolidated financial statements as at 31 December 2022. We are unable to determine the adjustments that may be required to be recorded in the consolidated financial statements 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 31 December 2022. The Bank has made full provision for wakala contract receivable as 31 December 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 year. 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.

Other Matters

- At shareholders' EGM held on 23 January 2023, the shareholders resolved to change the Group's financial year end from 30 June to 31 December effective from 31 December 2022, accordingly the corresponding figures presented are not audited.
- The consolidated financial statements of the Group as at and for the year ended 30 June 2022 were audited by another auditor whose report dated 22 May 2023, expressed a disclaimer of opinion on those consolidated financial statements.

Responsibilities of Board of Directors for the Consolidated Financial Statements

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Accounting and Auditing Organization for Financial Islamic Institutions ("AAOIFI"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The board of directors is also responsible for the Group's undertaking to operate in accordance with Islamic Sharia Rules and Principles as determined by the Group's Shariah Supervisory Board.

In preparing the consolidated financial statements, board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Auditing Standards for Islamic Financial Institutions ("ASIFIs") issued by AAOIFI and to issue an auditors' report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions, together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code.

Report on Other Regulatory Requirements

As required by the Commercial Companies Law and Volume 2 of the Rulebook issued by the Central Bank of Bahrain, except for the matters described in *Basis for Disclaimer of Opinion* section of our report and matters disclosed in note 2, we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statement are in agreement therewith;
b) the financial information contained in the chairman's statement is consistent with the consolidated financial statements;
c) we are not aware of any other violations during the year of the Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), and the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG

KPMG Fakhro
Partner Registration Number 137
29 November 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2022

	Note	***31 December 2022 USD '000*** **(Audited)**	*31 December 2021 USD '000* (Unaudited)
ASSETS			
Balances with banks	7	**2,633**	2,863
Wakala placements with financial institutions	7	**228**	-
Investments	8	**19,250**	27,682
Investment in an associate	9	**-**	219
Wakala contract receivable	11	**-**	6,670
Receivables	12	**781**	4,846
Funding to project companies	13	**2,283**	2,290
Other assets	14	**1,330**	758
Right-of-use asset	15	**3,477**	3,090
Property and equipment	16	**4,466**	4,469
TOTAL ASSETS		**34,448**	52,887
LIABILITIES			
Islamic financing payable	17	**13,267**	13,241
Employee accruals		**493**	997
Ijarah liability	15	**3,702**	3,247
Other liabilities	18	**33,261**	32,083
Total liabilities		**50,723**	49,568
EQUITY			
Share capital	19	**1,005**	190,000
Statutory reserve	19	**5,441**	5,859
Investment fair value reserve		**537**	1,008
Accumulated losses		**(23,258)**	(193,548)
Total equity		**(16,275)**	3,319
TOTAL LIABILITIES AND EQUITY		**34,448**	52,887
OFF-BALANCE SHEET ITEMS			
Equity of investment account holders		**120**	135

Mohammed Daij Al-Khalifa
Chairman

Robert C. Wages
Board Member

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2022

	Note	***31 December 2022*** ***USD '000*** **(Audited)**	*31 December 2021* *USD '000* (Unaudited)
REVENUE			
Management fee, net	20	**3,501**	618
Other investment income	21	**669**	395
Rental and other income	22	**4,177**	2,986
Net fair value changes on investments carried at fair value through income - net	23	**(1,585)**	(525)
Share of loss of associates and joint venture - net	9	**(108)**	(4)
Total revenue		**6,654**	3,470
EXPENSES			
Staff costs	24	**2,899**	3,174
Legal and professional fees		**1,089**	1,368
Finance expense	25	**208**	2,357
Depreciation	15,16	**413**	477
Other expenses	27	**11,744**	3,546
Total expenses		**16,353**	10,922
LOSS BEFORE IMPAIRMENT PROVISIONS		**(9,699)**	(7,452)
Impairment of investments	8,9	**(7,304)**	(446)
Provision for credit losses		**(3,309)**	(545)
Impairment of property and equipment	16	**189**	-
LOSS FOR THE YEAR		**(20,123)**	(8,443)

Mohammed Daij Al-Khalifa
Chairman

Robert C. Wages
Board Member

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

CONSOLIDATED STATEMENT OF CHANGES IN OWNER'S EQUITY

For the year ended 31 December 2022

	Note	*Share capital USD '000*	*Statutory reserve USD '000*	*Investment fair value reserve USD '000*	*Accumulated losses USD '000*	*Total USD '000*
(Audited)						
Balance at 1 January 2022		190,000	5,859	1,008	(193,548)	3,319
Capital adjustment	19	(189,995)	(418)	-	190,413	-
Capital injection	19	1,000	-	-	-	1,000
Loss for the year		-	-	-	(20,123)	(20,123)
Fair value changes on equity-type investments at fair value through equity		-	-	(471)	-	(471)
Balance at 31 December 2022		**1,005**	**5,441**	**537**	**(23,258)**	**(16,275)**
(Unaudited)						
Balance at 1 January 2021	19	190,000	5,859	262	(185,105)	11,016
Loss for the year		-	-	-	(8,443)	(8,443)
Fair value changes on equity-type investments at fair value through equity		-	-	746	-	746
Balance at 31 December 2021		190,000	5,859	1,008	(193,548)	3,319

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Note	***31 December 2022 USD '000 (audited)***	*31 December 2021 USD '000 (unaudited)*
OPERATING ACTIVITIES			
Net loss for the year		**(20,123)**	(8,443)
Adjustments for:			
Impairment of investments	8,9	**7,304**	446
Provision for credit losses		**3,309**	545
Reversal of impairment of property and equipment	16	**(189)**	-
Share of loss / (income) of associates and joint venture - net	9	**108**	4
Fair value losses / (gains) on investments carried at fair value through income - net	23	**1,585**	525
Gain on sale of investment	21	**-**	(127)
Depreciation	15,16	**413**	477
Finance cost on right-of-use asset	15	**182**	142
Dividend income	21	**(668)**	(268)
Operating losses before changes in operating assets and liabilities		**(8,079)**	(6,699)
Changes in operating assets and liabilities:			
Investments		**(5,209)**	59,906
Investment in associates and joint venture accounted under equity method		**-**	13,613
Receivables		**4,583**	1,182
Wakala contract receivable		**-**	-
Funding to project companies		**15**	134
Right-of-use asset	15	**(538)**	-
Property and equipment	16	**(70)**	-
Other assets		**(749)**	1,810
Proceeds from sale of investments		**5,060**	6,066
Employee accruals		**(504)**	(30)
Islamic financing payable		**26**	(70,687)
Ijarah liability	15	**539**	-
Other liabilities		**5,827**	(2,698)
Net cash from operating activities		**901**	2,597
FINANCING ACTIVITIES			
Murabaha financing to investee companies		**(1,796)**	(353)
Capital injection by strategic investor	19	**1,000**	-
Rent paid towards right-of-use asset	15	**(266)**	(226)
Net cash used in financing activities		**(1,062)**	(579)
Net (decrease) / increase in cash and cash equivalents		**(161)**	2,018
Cash and cash equivalents at beginning of the year		**2,863**	849
ECL reversed / (charged) on balances with banks		**159**	(4)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**2,861**	2,863
Cash and cash equivalents per the consolidated statement of financial position			
Balances with banks		**2,633**	2,863
Short-term placements		**228**	-
	7	**2,861**	2,863

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

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

For the year ended 31 December 2022

31 December 2022

		Movements during the year		
Audited	**Balance as at 1 January 2022 USD '000**	**Fair value movement / (impairment) USD '000**	**Other loss USD '000**	**Balance as at 31 December 2022 USD '000**
GCC Pre IPO Fund	**135**	**(15)**	**-**	**120**

	30 June 2022 USD '000
Investment in equities	**76**
Receivables	**44**
Balances with banks	**-**
Total	**120**

31 December 2021

		Movements during the year		
	Balance as at 1 January 2021	Fair value movement / (impairment)	Other loss	Balance as at 31 December 2021
Unaudited	USD '000	USD '000	USD '000	USD '000
GCC Pre IPO Fund	1,214	55	(1,134)	135

	30 June 2021 USD '000
Investment in equities	91
Receivables	44
Total	135

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 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 317, Diplomatic Area, Manama, Kingdom of Bahrain.

During the year, Esterad Investment Company B.S.C, a company incorporated in Bahrain and listed in Bahrain Bourse, injected USD 1 million as capital, thereby becoming the majority shareholder and efectively the parent company (refer to note 19).

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

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 consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the year ended 31 December 2022. The financial statements of the subsidiaries are prepared using the same annual reporting period ending on 31 December, using consistent accounting policies.

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

Name of subsidiary	Year of incorporation	% holding	Country of incorporation	Principal activities
Gulf Projects Company W.L.L.	1998	100%	Kingdom of Bahrain	To own an interest in and operate the Venture Capital Bank car park building.
The Lounge Serviced Offices Company W.L.L.	2007	100%	Kingdom of Bahrain	To own, operate and manage serviced offices in Bahrain and regionally.
GMCB Co. W.L.L. *	2008	54.06%	Kingdom of Bahrain	To invest in a medical facility in the Kingdom of Bahrain. The Group aquired control of the entity in June 2018.
VCB Investment Advisors LTD	2006	100%	Cayman Island	A special purpose vehicle incorporated in Cayman Island for collection of management fees - Dormant entity.

* The Group's investment in GMCB Co. W.L.L. is not consolidated on a line by line basis as control is deemed to be temporary in nature since GMCB Co. W.L.L. is in the process of liquidation.

The unconsolidated subsidiary classified under Investments held for sale carrying value has been reduced to nil as at 31 December 2022.

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. Accordingly, the comparative has not been subjected to audit procedures.

2 FUNDAMENTAL ACCOUNTING ASSUMPTION

Going concern assessment

The Group incurred a net loss of US$ 20,123 thousand and, as of that date, the Group had equity deficiency of USD 16,275 thousand, accumulated losses of USD 23,258 thousand and furthermore, 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 22,766 thousand.

During the year, 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 consolidated financial statements 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) 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.

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

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 and other regulators did not express any intention to liquidate the Bank, and these consolidated financial statements have been prepared on a going concern basis. In the event of a distress sale of the Group's assets, their net realisable value might not approximate their fair value as at 31 December 2022.

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 year ended 31 December 2022. The Bank is also not in compliance with other regulatory requirements by the CBB and the Commercial Companies Law ("CCL").

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 year-end, 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. The Bank successfully issued AT1 Sukuk for USD 21 million subsequent to the year-end.

3 BASIS OF PREPARATION

3.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards (‘FAS’) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (“AAOIFI”) and in conformity with Commercial Companies Law. In line with the requirement of AAOIFI and the Rulebook issued by CBB, for matters that are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standards (IFRS).

3.2 Basis of measurement

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 also the functional currency of the Group. All values are rounded off to the nearest thousand (USD '000) unless otherwise indicated.

3.3 New and amended standards and interpretations issued but not yet effective

The Group's management is currently assessing the impact of the below new accounting standards on the Group's consolidated financial statements. The following new standards and interpretations issued but not yet effective as of 31 December 2022 and have not been early adopted by the Group.

(i) FAS 39 - Financial Reporting for Zakah

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

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.

3 BASIS OF PREPARATION (continued)

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

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;

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 consolidated financial statements.

(iii) FAS 41 Interim financial reporting

This standard prescribes the principles for the preparation of condensed interim financial information and the relevant presentation and disclosure requirements, emphasizing the minimum disclosures specific to Islamic financial institutions in line with various financial accounting standards issued by AAOIFI. This standard also provides an option for the institution to prepare a complete set of financial statements at interim reporting dates in line with the respective FAS's.

This standard will be effective for financial statements for the period beginning on or after 1 January 2023 and is not expected to have any significant impact on the Group's conolidated financial statements.

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 assessment

These consolidated financial statements for the year ended 31 December 2022 have been prepared on a Going concern basis, (refer to note 2).

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

The details of estimates and related sensitivity analysis are disclosed in notes 37.

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.

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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises (including special purpose entities) controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control commences until when control ceases.

(ii) Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. If less than 100% of a subsidiary is acquired, then the Group elects on a transaction-by-transaction basis to measure non-controlling interests either at:

- Fair value at the date of acquisition, which means that goodwill, or the gain on a bargain purchase, includes a portion attributable to ordinary non-controlling interests; or
- the holders' proportionate interest in the recognised amount of the identifiable net assets of the acquire, which means that goodwill recognised, or the gain on a bargain purchase, relates only to the controlling interest acquired.

(iii) Special purpose entities

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries. Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Control is presumed to exist, when the Bank owns majority of voting rights in an investee.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

(iii) Special purpose entities (continued)

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction and usually voting rights are relevant for the operating of such entities. An investor that has decision-making power over an investee and exposure to variability of returns determines whether it acts as a principal or as an agent to determine whether there is a linkage between power and returns. When the decision maker is an agent, the link between power and returns is absent and the decision maker's delegated power does not lead to a control conclusion. Where the Group’s voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of these entities are usually not included in these consolidated financial statements. Information about the Group’s fiduciary assets under management is set out in note 34.

For the purpose of reporting assets under management, the gross value of assets managed are considered.

(iv) Loss of control

When the Group losses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity. Any surplus or deficit arising on the loss of control is recognised in consolidated income statement. Any interest retained in the former subsidiary, is measured at fair value when control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group’s accounting policy for investment securities depending on the level of influence retained.

(v) Equity accounted investees

This comprise investment in associates and joint ventures. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exits when the Group holds between 20% and 50% of the voting power of another entity. A joint venture is an arrangement in which the Group has joint control, where the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Associates and Joint venters are accounted for under equity method. These are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor’s share of the profit or loss of the investees after the date of acquisition. Distributions received from an investees reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor’s proportionate interest in the investees arising from changes in the investee’s equity. When the Group’s share of losses exceeds its interest in an equity-accounted investees, the Group’s carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investees. Equity accounting is discontinued when an associate is classified as held-for-sale.

(vi) Transactions eliminated on consolidation and equity accounting

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency translation gains or losses) from intra-group transactions with subsidiaries are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity accounted investees are eliminated to the extent of the Group’s interest in the investees. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries and equity- accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign currency transactions

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

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

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

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

(c) Financial assets and liabilities

(i) Recognition and de-recognition
Financial assets of the Group comprise of cash and balances with banks, 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 of 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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial assets and liabilities (continued)

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.

(i) Recognition and de-recognition (continued)

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 income, receivables at amortised cost or financial assets at fair value through equity. All of the financial liabilities of the Group are classified at amortised cost. Management determines the classification of its financial instruments at initial recognition.

(iii) 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.

(iv) *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.

(d) Investments

The Group classifies its investments, excluding investment in subsidiaries and equity accounted associates and joint ventures, in the following categories: equity-type investment at fair value through income and equity-type investments at fair value through equity.

(i) Classification

The Group shall classify equity-type investments at either (i) fair value through equity or (ii) fair value through income, on the basis of both the Group's business model for managing investments and the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic contracts.

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 which include investments in quoted equities. An investment held-for-trading shall always fall in fair value through income classification.

The Group designates equity-type investments at fair value through income 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. These investments are fair valued through income unless the Group makes an irrevocable classification choice at initial recognition to classify this as an investment at fair value through equity.

(ii) Initial recognition

Investment securities are recognised at the trade date i.e. the date that the Group commits to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Investments (continued)

(ii) Initial recognition (continued)

Equity instruments are carried as investment at fair value through income unless the Group makes an irrevocable classification choice at initial recognition to classify them as investment at fair value through equity.

(iii) Subsequent measurement

Investment securities are measured initially at fair value plus, except for investment securities carried at FVTIS, transaction costs that are directly attributable to its acquisition or issue.

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the consolidated income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in owners equity and presented in a separate investment fair value reserve in equity.

The fair value gains / (losses) are recognised taking into consideration the split between portions related to owners' equity and equity of investment account holders. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in owners' equity is transferred to the income statement.

Investments at FVTE where the entity is unable to determine a reliable measure of fair value on a continuing basis, such as investments that do not have a quoted market price or there are no other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

(iv) Fair value measurement principles

Amortised cost measurement

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 capital 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 (directly or through use of an allowance account) for impairment or uncollectibility. 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.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. 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.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

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 analyses, price / earnings multiples and other valuation models with accepted economic methodologies for pricing financial instruments.

Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Investments (continued)

(iv) Fair value measurement principles (continued)

Fair value estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(e) Impairment of financial assets

Financial assets 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 measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- Debt-type securities that are determined to have low credit risk at the reporting date; and Other debt-type securities and,
- Other debt-type securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of an exposure subject to credit risk has increased significantly since initial recognition when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment including forwardlooking information.

The Group assumes that the credit risk on exposure subject to credit risk increased significantly if it is more than 30 days past due. The Group considers an exposure subject to credit risk 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 realising security, if any is held; or
- the exposure is more than 90 days past due.

The Group applies a three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12-months ECL

Stage 1 includes exposures that are subject to credit risk on initial recognition and that do not have a significant increase in credit risk since initial recognition or that have low credit risk. 12-month ECL is the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment of financial assets (continued)

Stage 2: Lifetime ECL - not credit impaired
Stage 2 includes exposures that are subject to credit risk that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the life-time probability of default ('PD').

Stage 3: Lifetime ECL - credit impaired
Stage 3 includes exposures that are subject to credit risk that have objective evidence of impairment at the reporting date in accordance with the indicators specified in the CBB's rule book. For these assets, lifetime ECL is recognised.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. They are measured as follows:
- Exposures subject to credit risk that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Exposures subject to credit risk that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn financing commitment: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive;
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover; and
- ECLs are discounted at the effective profit rate of the exposure subject to credit risk.

Credit-impaired exposures
At each reporting date, the Group assesses whether exposures subject to credit risk are credit impaired. An exposure subject to credit risk is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that an exposure is creditimpaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a financing facility or advance by the Bank on terms that the Bank would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position
Loss allowances for exposures subject to credit risk are deducted from the gross carrying amount of the assets.

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.

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 FAS 30.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment of financial assets (continued)

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.

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

Probability of default ("PD")

Types of PDs used for ECL computation

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

- Lifetime PDs – This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for ‘stage 2’.

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

Loss Given Default ("LGD")
LGD is used to determine the amount of loss that will arise if the borrower was to default. This is calculated by looking at the collateral and other resources available to the Group that can be used to recover the asset in case of default.

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment of financial assets (continued)

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 contracts has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost and effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment including forward-looking information.

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

Impairment of equity investments classified at fair value through equity (FVTE)

In the case of investments in equity securities classified as FVTE. A significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. The Group considers a decline of 30% to be significant and a period of nine months to be prolonged. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are subsequently reversed through equity.

(f) Placements with and from financial and other institutions

These comprise placements made with/ from financial and other institutions under shari'a compliant contracts. Placements are usually short term in nature and are stated at their amortised cost.

(g) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash on hand, bank balances and placements with financial institutions) with original maturities of three months or less when acquired that are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Bank balances that are restricted and not available for day-today operations of the Group are not included in cash and cash equivalents.

(h) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projection if the recognition criteria are met. All other repair and maintenance costs are recognised in the consolidated income statement as incurred.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight line method over their estimated useful lives, and is generally recognised in the consolidated income statement.

The estimated useful lives of property and equipment of the industrial business assets are as follows:

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

5 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

(h) Property and equipment (continued)

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts, being the higher of the fair value less costs to sell and their value in use.

An item of property and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognised in the consolidated statement of income in the year of derecognition.

The assets' residual values, useful lives and methods of depreciation are reviewed annually and adjusted prospectively if appropriate.

(i) Impairment of non-financial assets

The carrying amount of the Group's non-financial assets (other than those subject to credit risk covered above) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed.

(j) 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.

(k) 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.

(l) 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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Share capital and statutory reserve

Share capital
The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Equity instruments of the group comprise ordinary shares and equity component of share-based payments and convertible 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 Commercial Companies Law requires that 10 percent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital. Appropriation to statutory reserve is made when approved by the shareholders.

(n) Revenue recognition

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised to the extent that it is probable that future economic benefits associated with the item of revenue will flow to the Group, the revenue can be measured with reliability and specific criteria have been met for each of the Group's activities as described below:

Banking business

Income from investment banking activities 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. Significant acts in relation to a transaction are determined based on the terms agreed in the private placement memorandum/ contracts for each transaction. The assessment of whether economic benefits from a transaction will flow to the Group is determined when legally binding commitments have been obtained from underwriters and external investors for a substantial investment in the transaction.

Income from placements with / from financial institutions are recognised on a time-apportioned basis over the period of the related contract using the effective profit rate.

Dividend income from investment securities is recognised when the right to receive is established. This is usually the ex-dividend date for equity securities.

Finance income / expenses are recognised using the amortised cost method at the effective profit rate of the financial asset / liability.

Fees and commission income that are integral to the effective profit rate on a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management fees, placement and arrangement fees and syndication fees, are recognised as the related services are performed.

Non-banking business
Revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

Revenue is recognised when the goods are provided to the customer, which was taken to be the point in time at which the customer accepted the goods and the related risks and rewards of ownership transferred. Revenue was recognised at that point provided that the revenue and cost could be measured reliably, the recovery of the consideration was probable and there was no continuing managerial involvement with the goods.

5 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

(o) Equity of investment account holders

Equity of investment account holders are funds held by the Group in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The Group charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (Profit equalisation reserve and Investment risk reserve) and deducting the Group's share of income as a Mudarib. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Only the income earned on pool of assets funded from IAH are allocated between the owners' equity and investment account holders. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts.

The Group allocates specific provision and collective provision to owners' equity. Amounts recovered from these impaired assets is not subject to allocation between the IAH and owners' equity.

Investment accounts are carried at their book values and include amounts retained towards profit equalisation, investment risk reserves, if any. Profit equalisation reserve is the amount appropriated by the Group out of the Mudaraba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Group out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of any of these reserves results in an increase in the liability towards the pool of unrestricted investment accounts.

Restricted investment accounts

Restricted investment accounts represent assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Group as an investment manager based on either a Mudharaba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders. Assets that are held in such capacity are not included as assets of the Group in the consolidated financial statements.

(p) 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. Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

5 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

(p) *Employee benefits (continued)*

(ii) Post employment benefits

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organisation scheme, which is a “defined contribution scheme” in nature under, 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 consolidated income statement when they are due.

Expatriate and certain Bahraini employees on fixed contracts are entitled to leaving indemnities payable, based on length of service and final remuneration. Provision for this unfunded commitment, has been made by calculating the notional liability had all employees left at the reporting date. These benefits are in the nature of a “defined benefit scheme” and any increase or decrease in the benefit obligation is recognised in the consolidated income statement.

(q) 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.

(r) 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.

(s) Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 issued by AAOIFI using the net assets method. Zakah is paid by the Group based on the consolidated figures of statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on equity of investment account holders and other accounts is the responsibility of investment account holders. Zakah per share amount is presented in note 29.

(t) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expense are presented on a net basis only when permitted under AAOIFI, or for gains and losses arising from a group of similar transactions.

(u) 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.

6 CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

At 31 December 2022 (Audited)

	Equity-type at fair value through income USD '000	*Equity-type at fair value through equity USD '000*	*Amortised cost USD '000*	*Total USD '000*
ASSETS				
Balances with banks	**-**	**-**	**2,633**	**2,633**
Wakala placements with financial institutions			**228**	**228**
Investments	**11,480**	**7,770**	**-**	**19,250**
Receivables	**-**	**-**	**781**	**781**
Funding to project companies	**-**	**-**	**2,283**	**2,283**
Other assets	**-**	**-**	**1,269**	**1,269**
TOTAL FINANCIAL ASSETS	**11,480**	**7,770**	**7,194**	**26,444**
LIABILITIES				
Islamic financing payable	**-**	**-**	**13,267**	**13,267**
Other liabilities	**-**	**-**	**13,944**	**13,944**
TOTAL FINANCIAL LIABILITIES	**-**	**-**	**27,211**	**27,211**
OFF BALANCE SHEET ITEMS				
Equity of investment account holders	**-**	**76**	**44**	**120**

At 31 December 2021 (Unaudited)

	Equity-type at fair value through income USD '000	*Equity-type at fair value through equity USD '000*	*Amortised cost USD '000*	*Total USD '000*
ASSETS				
Balances with banks	-	-	2,863	2,863
Investments	14,524	13,158	-	27,682
Wakala contract receivable	-	-	6,670	6,670
Receivables	-	-	4,846	4,846
Funding to project companies	-	-	2,290	2,290
Other assets	-	-	725	725
TOTAL FINANCIAL ASSETS	14,524	13,158	17,394	45,076
LIABILITIES				
Islamic financing payable	-	-	13,241	13,241
Other liabilities	-	-	15,346	15,346
TOTAL FINANCIAL LIABILITIES	-	-	28,587	28,587
OFF BALANCE SHEET ITEMS				
Equity of investment account holders	-	91	44	135

7 BALANCES WITH BANKS & WAKALA PLACEMENTS WITH FINANCIAL INSTITUITIONS

	31 December 2022 USD '000 (Audited)	*31 December 2021 USD '000 (Unaudited)*
Bank current and call accounts	**2,638**	3,027
Less: ECL provision	**(5)**	(164)
	2,633	2,863
Wakala Placements with financial institutions	**228**	-
Net cash and cash equivalents	**2,861**	2,863

During the year, there were court imposed restrictions on the Bank's accounts with other banks resulting from legal case. Accordingly, the Group uses the bank accounts of its wholly owned subsidiaries to hold and route funds related to its own operations. These restrictions were lifted in November 2022.

8 INVESTMENTS

	31 December 2022 USD '000 (Audited)	*31 December 2021 USD '000 (Unaudited)*
Equity-type Investments at fair value through income		
Quoted equities held for trading	**34**	9
Unquoted equities	**11,446**	14,515
	11,480	14,524
Equity-type Investments at fair value through equity		
Unquoted equities	**19,569**	19,835
Subordinated Mudaraba	**9,356**	9,356
Short term liquidity certificates	**2,824**	690
	31,749	29,881
Less: impairment provision	(23,979)	(16,723)
	7,770	13,158
Total investments - net	**19,250**	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 of 31 December 2022, the Group maintains an impairment of USD 6,508 thousand (2021: USD 644 thousand) against the transferred assets. 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.

8 *INVESTMENTS (continued)*

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

	31 December 2022 USD '000 (Audited)	*31 December 2021 USD '000 (Unaudited)*
Balance at 1 January	**16,723**	45,209
Sale of investments	**-**	(28,931)
Charge for the year	**7,256**	445
Balance at 31 December	**23,979**	16,723

The unquoted equity-type investments and short term liquidity certificates comprise investments in the following market segments:

	31 December 2022 USD '000 (Audited)	*31 December 2021 USD '000 (Unaudited)*
Real estate projects	**4,136**	3,802
Private equity	**15,080**	23,871
	19,216	27,673

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

9 INVESTMENT IN AN ASSOCIATE

			% holding	
Name of associate	***Nature of business***	***Country of incorporation***	***31 December (Audited) 2022***	*31 December (Unaudited) 2021*
Venture Capital Fund Bahrain	Small & medium enterprises investment fund	Kingdom of Bahrain	**30**	30

The carrying value comprises:	***31 December 2022 (Audited) USD '000***	*31 December 2021 (Unaudited) USD '000*
Investment in an Associate	**-**	219
	-	219

During the year, movements in the Groups investment in an associate accounted under the equity method are as follows:

9 INVESTMENT IN AN ASSOCIATE (continued)

	31 December 2022 USD '000 (Audited)	*31 December 2021 USD '000 (Unaudited)*
At 1 January	**219**	13,914
Exit of investments	**-**	(13,691)
Impairment recognised	**(111)**	-
Share of loss of associates and joint venture - net	**(108)**	(4)
At 31 December	**-**	219
Gross investment		
Associate	**219**	223
Joint venture	**-**	13,691
	219	13,914
Less:		
Exit of investment	**-**	(13,691)
Impairment provision	**(111)**	-
Share of loss of associates and joint venture - net	**(108)**	(4)
Net investment	**-**	219

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

Balance at 1 January	**874**	12,579
Sale of investments	**-**	(11,705)
Impairment charged	**111**	-
Balance at 31 December	**985**	874

Summarised financial information for the Groups investment in an associate accounted under the equity method is as follows:

	31 December 2022 USD '000 (Audited)	*31 December 2021 USD '000 (Unaudited)*
Total assets	**840**	1,000
Total liabilities	**336**	315
Total revenues for the year	**1**	6

The total assets, liabilities and revenues of the associate is based on unaudited management accounts as of 31 December 2022 and 2021.

10 MURABAHA FINANCING TO INVESTEE COMPANIES

	31 December 2022 USD '000 (Audited)	*31 December 2021 USD '000 (Unaudited)*
Financing to investee companies in the following sectors:		
Manufacturing	**3,140**	1,344
Real estate	**359**	359
	3,499	1,703
Less: ECL provision	**(3,499)**	(1,703)
At 31 December	**-**	-

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

Balance at 1 January	**(1,703)**	(1,263)
Impairment charged	**(1,796)**	(440)
Balance at 31 December	**(3,499)**	(1,703)

These represent financing support extended by the Group to facilitate the debt restructuring and repayments of investees with external lenders in the form of commodity murabaha contracts. The Group did not recognise any profit during the year on these financing contracts.

11 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% under stage 3 (31 December 2021: 50%).

The Group suspended accruing profit on its wakala contract receivable as the Wakil has failed to redeem the Group's wakala upon their request. The Group has a corresponding short-term borrowing from the Wakil under an unrestricted wakala agreement amounting USD 13,341 thousand (refer to note 17).

12 RECEIVABLES

	31 December 2022 USD '000 (Audited)	*31 December 2021 USD '000 (Unaudited)*
Receivable from investment banking services	**6,770**	9,229
Receivable on sale of investment	**30**	2,685
	6,800	11,914
Less: ECL provision	**(6,019)**	(7,068)
	781	4,846
The table below shows the movement in impairment provision during the year:		
At 1 January	**(7,068)**	(8,451)
Reversal of provision for expected credit losses	**519**	1,383
Written-off during the year	**530**	-
At 31 December	**(6,019)**	(7,068)

13 FUNDING TO PROJECT COMPANIES

	31 December 2022 USD '000 (Audited)	*31 December 2021 USD '000 (Unaudited)*
Gross funding	**4,393**	4,408
Less: ECL provision	**(2,110)**	(2,118)
	2,283	2,290

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

	31 December 2022 USD '000 (Audited)	*31 December 2021 USD '000 (Unaudited)*
At 1 January	**2,118**	1,943
(Reversal of) / provision for expected credit losses	**(8)**	175
At 31 December	**2,110**	2,118

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

14 OTHER ASSETS

	31 December 2022 USD '000 (Audited)	*31 December 2021 USD '000 (Unaudited)*
Advances to acquire investments	**6,295**	6,295
Project costs recoverable	**3,484**	2,560
Dividend receivable	**444**	444
Other receivables	**1,660**	1,921
Prepayment	**61**	33
	11,944	11,253
Less: ECL provision	**(10,614)**	(10,495)
	1,330	758

The table below shows the movement in ECL during the year:

At 1 January	**10,495**	11,038
Impairment charged / (reversed)	**177**	(543)
Written-off during the year	**(58)**	-
At 31 December	**10,614**	10,495

15 RIGHT-OF-USE ASSET / IJARAH LIABILITY

The Group's subsidiaries have lease contracts for office rental spaces and land. The table below illustrates the right-of-use asset and related liability recognised by the Group:

	Right-of- use asset USD' 000 (Audited)	*Ijarah liability USD' 000 (Audited)*
As at 1 January 2021	3,251	3,331
Depreciation	(161)	-
Finance cost	-	142
Rent paid	-	(226)
As at 31 December 2021	3,090	3,247
Lease Adjustments	538	539
Depreciation	(151)	-
Finance cost	-	182
Rent paid	-	(266)
As at 31 December 2022	**3,477**	**3,702**

Right-of-use asset		
Non-current	**3,477**	3,090
As at 31 December	**3,477**	3,090
Ijarah liability		
Current	**89**	73
Non-current	**3,613**	3,174
As at 31 December	**3,702**	3,247
Ijarah liability		
Gross ijarah liability	**5,965**	5,965
Deferred cost on ijarah liability	**(2,263)**	(2,718)
	3,702	3,247

16 PROPERTY AND EQUIPMENT

	Building USD '000	*Office equipment USD '000*	*Furniture and fixtures USD '000*	*Motor vehicles USD '000*	*Total USD '000*
Cost					
At 1 January 2021	10,098	1,862	4,816	496	17,272
Additions during the year	-	21	49	-	70
Disposal	-	(80)	-	-	(80)
At 31 December 2022	**10,098**	**1,803**	**4,865**	**496**	**17,262**
Depreciation					
At 1 January 2021	3,548	1,832	4,676	496	10,552
Charge for the year	226	16	20	-	262
Disposal	-	(80)	-	-	(80)
At 31 December 2022	**3,774**	**1,768**	**4,696**	**496**	**10,734**
Impairment					
At 1 January 2021	2,251	-	-	-	2,251
Impairment during the year	(189)	-	-	-	(189)
Net book value at 31 December 2022	**4,262**	**35**	**169**	**-**	**4,466**
Net book value at 31 December 2021	4,299	30	140	-	4,469

17 ISLAMIC FINANCING PAYABLE

	Note	***31 December 2022 USD '000 (Audited)***	*31 December 2021 USD '000 (Unaudited)*
Short-term Islamic financing payables:			
Wakala payable to non-bank	17.1	**2,400**	-
Wakala payable to financial institution	17.1	**10,867**	13,241
		13,267	13,241

17.1 The Group has filed a legal case to net off the payable amount to a local bank against the Wakala contract receivable from the same party (note 11). On 20 May 2021, the BCDR issued a judgement based on which the Bank was ordered to pay USD 13,391 thousand principal, late payment charges of USD 1,727 thousand, and arbitration costs of USD 789 thousand.

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 subsequent to the year end. The outstanding balance has been converted to AT1 capital in the subsequent period after obtaining the necessary regulatory approvals.

18 OTHER LIABILITIES

	31 December 2022 USD '000 (Audited)	*31 December 2021 USD '000 (Unaudited)*
Accounts payable	**5,670**	6,085
Provisions and accruals	**9,204**	633
Deferred income	**33**	1,165
Provision against guarantees *	**10,077**	14,730
Payable under settlement agreement **	**8,274**	9,261
Other	**3**	209
	33,261	32,083

* 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 for which the Group is currently assessing its legal position and a defense strategy. Management has found it prudent to recognise provisions against such claims (refer note 35).

** 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 year.

19 SHARE CAPITAL

	31 December 2022 USD '000 (Audited)	*31 December 2021 USD '000 (Unaudited)*
Authorised: 10,000,000 (31 December 2021: 500,000,000) ordinary shares of USD 1 each	**10,000**	500,000
Issued and fully paid up: 1,005,000 shares of USD 1 each (31 December 2021: 190,000,000 shares of USD 1 each)	**1,005**	190,000

On 21 April 2022, the shareholders in their Extraordinary General Meeting, resolved to adjust accumulated losses of USD 190,413 thousand against statutory reserve of USD 418 thousand and balance USD 189,995 thousand against paid-up capital. As a result, paid-up capital reduced to USD 5 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 resulting in 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.

Furthermore, EGM resolved to reduce the Authorised capital of the Bank from USD 500 million to USD 10 million.

Statutory reserve

The CCL 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, no transfers were made to statutory reserve due to losses incurred by the Group. The reserve is not distributable except in such circumstances as stipulated in the CCL and following the approval of the CBB.

Investment fair value reserve

Investment fair value reserve represents unrealized gains/losses resulted from the valuation of investment at fair value through equity.

20 MANAGEMENT FEE, NET

	2022 USD '000 (Audited)	2021 USD '000 (Unaudited)
Investment management and arrangement fees	**3,501**	618
	3,501	618

21 OTHER INVESTMENT INCOME

	2022 USD '000 (Audited)	2021 USD '000 (Unaudited)
Dividend income	**668**	268
Finance income	**1**	-
Equity-type investments at fair value through income	**-**	127
	669	395

22 RENTAL AND OTHER INCOME

	2022 USD '000 (Audited)	2021 USD '000 (Unaudited)
Rental income	**1,335**	1,746
Reversals of other provisions no longer required	**2,463**	854
Recoveries of impaired receivables and investments	**144**	75
Others	**235**	311
	4,177	2,986

23 NET FAIR VALUE CHANGES ON INVESTMENTS CARRIED AT FAIR VALUE THROUGH INCOME - NET

	2022 USD '000 (Audited)	2021 USD '000 (Unaudited)
Trading securities - quoted	**25**	-
Investments designated at fair value through income	**(1,610)**	(525)
	(1,585)	(525)

24 STAFF COSTS

	2022 USD '000 (Audited)	2021 USD '000 (Unaudited)
Salaries and benefits	**2,725**	2,673
Social insurance expenses	**131**	107
Employee severance cost	**-**	346
Other staff expenses	**43**	48
	2,899	3,174

25 FINANCE EXPENSE

	2022	2021
	USD '000	USD '000
	(Audited)	(Unaudited)
Islamic financing payables	**26**	2,126
Ijarah liability	**182**	231
	208	2,357

26 IMPAIRMENT OF FINANCIAL ASSETS

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

	31 December 2022			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
(Audited)	***USD '000***	***USD '000***	***USD '000***	***USD '000***
Exposures subject to ECL				
Balances with banks	2,484	154	-	2,638
Wakala Placements with financial institutions	228	-	-	228
Murabaha financing to investee companies	-	-	3,499	3,499
Wakala contract receivable	-	-	13,341	13,341
Receivables	-	30	6,770	6,800
Funding to project companies	-	3,262	1,130	4,392
Other assets	188	1,219	10,537	11,944
Guarantees and commitments	3,009	415	16,524	19,948
	5,909	**5,080**	**51,801**	**62,790**
Impairment provision	(13)	(1,901)	(33,683)	(35,597)
	5,896	**3,179**	**18,118**	**27,193**

	31 December 2021			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
(Unaudited)	*USD '000*	*USD '000*	*USD '000*	*USD '000*
Exposures subject to ECL				
Balances with banks	2,869	-	158	3,027
Murabaha financing to investee companies	-	-	1,703	1,703
Wakala contract receivable	-	-	13,341	13,341
Receivables	2,625	60	9,229	11,914
Funding to project companies	-	3,272	1,136	4,408
Other assets	170	1,585	9,498	11,253
Guarantees and commitments	4,147	11,220	26,860	42,227
	9,811	16,137	61,925	87,873
Impairment provision	(95)	(2,136)	(40,718)	(42,949)
	9,716	14,001	21,207	44,924

27 OTHER EXPENSES

	2022	*2021*
	USD '000	*USD '000*
	(Audited)	*(Unaudited)*
Office expenses	**1,070**	1,376
Publicity, conferences and promotion	**88**	72
Board of directors and Shari'a supervisory board fees and expenses	**248**	439
Exchange loss	**88**	5
Provision for litigation and others (note 18)	**8,644**	-
Project management costs *	**1,495**	1,559
Other	**111**	95
	11,744	3,546

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

28 RELATED PARTY TRANSACTIONS AND BALANCES

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

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

28 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

Audited **31 December 2022**	***Significant unconsolidated Investments at fair value through income*** ***USD '000***	***Associates*** ***USD '000***	***Board members/ key management personnel/ Shari'a board members/ external auditors*** ***USD '000***	***Significant shareholders / entities in which directors are interested*** ***USD '000***	***Total*** ***USD '000***
Assets					
Investments	-	-	-	710	**710**
Liabilities					
Employee accruals	-	-	280	-	**280**
Other liabilities	-	418	461	3,228	**4,107**
Fair value losses on investments carried at fair value through income	(1,854)	-	-	(790)	**(2,644)**
Share of loss of an associate	-	(108)	-	-	**(108)**
Expenses					
Finance expense	-	-	-	(26)	**(26)**
Legal and professional fees	-	-	(236)	-	**(236)**
Other expenses	(598)	-	(224)	-	**(822)**
Impairment of investments	-	(111)	-	-	**(111)**
Provision for credit losses	(88)	3	-	(19)	**(104)**
Commitments and contingencies	-	-	-	-	**-**

28 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Unaudited 31 December 2021	*Significant unconsolidated Investments at fair value through income* *USD '000*	*Associates* *USD '000*	*Board members/ key management personnel/ Shari'a board members/ external auditors* *USD '000*	*Significant shareholders / entities in which directors are interested* *USD '000*	*Total* *USD '000*
Assets					
Investments - net	1,854	-	-	1,501	3,355
Investment in an associate	-	219	-	-	219
Liabilities					
Employee accruals	-	-	621	-	621
Other liabilities	-	431	869	3,228	4,528
Other losses					
Fair value losses on investments carried at fair value through income - net	(560)	-	-	(343)	(903)
Share of loss of an associate		(4)			
Expenses					
Impairment allowances against investments					
Impairment of investments	-	-	-	-	-
Legal and professional fees	-	-	214	-	214
Other expenses	628	-	403	-	1,031
Provision for credit losses	(295)	(3)	-	6	(292)
Commitments and contingencies	1,081		-	-	1,081

28 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Key management personnel
Key management personnel of the Group comprise of 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*

	31 December 2022 (Audited)		*31 December 2021 (Unaudited)*	
	Number of Shares	***Directors***	*Number of Shares*	*Directors*
Less than 1%	**918**	**6**	2,909,627	2
1% up to less than 5%	**-**	**-**	6,803,131	2
5% and less than 10%	**-**	**-**	25,179,616	2
	918	**6**	34,892,374	6

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 Ministry of Industry and Commerce. Accordingly the number of shares held in by the Directors directly or indirectly reduced due to the capital reduction.

The term of the directors expired in September 2022 and accordingly an AGM was held in January 2023 appointing the new directors of the Bank.

Compensation of directors and key management personnel are as follows:

	31 December 2022 USD '000 (Audited)	*31 December 2021 USD '000 (Unaudited)*
Board of directors' attendance fees	**175**	340
Salaries and other short-term benefits	**578**	535
	753	875

Terms and conditions of transactions with related parties
The Group enters into transactions, arrangements and agreements with its related parties in the ordinary course of business at commercial profit rates and fees. The above mentioned transactions and balances arose from the ordinary course of business of the Group.

Board of Directors' remuneration
No board remuneration was proposed for the years 2022 and 2021 except for the attendance fee.

29 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 31 December 2022 and the prior period. Accordingly, a statement of sources and uses 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 31 December 2022 is US cents nil for every share held (31 December 2021: 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.

30 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 (31 December 2021: nil).

31 SHARI'AH 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.

32 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. The contractual maturity of financial liabilities are set out in note 36 (c).

31 December 2022 (Audited)	*Up to 3 months*	*3 to 6 months*	*6 months to 1 year*	*Total up to 1 year*	*1 to 3 years*	*Over 3 years*	*No fixed maturity*	*Total*
	USD '000	*USD '000*	*USD '000*	*USD '000*	*USD '000*	*USD '000*	*USD '000*	*USD '000*
Assets								
Balances with banks	2,633	-	-	2,633	-	-	-	**2,633**
Wakala placements with financial	133	-	95	228	-	-	-	**228**
Investments	34	-	-	34	3,536	3,491	12,189	**19,250**
Receivables	-	-	-	-	781	-	-	**781**
companies	-	-	-	-	2,283	-	-	**2,283**
Other assets	10	42	529	581	749	-	-	**1,330**
Right-of-use asset	-	-	-	-	-	3,477	-	**3,477**
Property and equipment	-	-	-	-	-	4,466	-	**4,466**
Total assets	**2,810**	**42**	**624**	**3,476**	**7,349**	**11,434**	**12,189**	**34,448**
Liabilities								
Islamic financing payable	13,267	-	-	13,267	-	-	-	**13,267**
Employee accruals	19	-	-	19	-	474	-	**493**
Ijarah liability	-	-	89	89	-	3,613	-	**3,702**
Other liabilities	186	1,419	11,262	12,867	20,342	52	-	**33,261**
Total liabilities	**13,472**	1,419	**11,351**	**26,242**	**20,342**	**4,139**	-	**50,723**
Net liquidity gap	**(10,662)**	**(1,377)**	**(10,727)**	**(22,766)**	**(12,993)**	**7,295**	**12,189**	**(16,275)**
Cumulative liquidity gap	**(10,662)**	**(12,039)**	**(22,766)**	**(22,766)**	**(35,759)**	**(28,464)**	**(16,275)**	**(16,275)**
Commitments and contingencies	-	-	**16,939**	**16,939**	**3,009**	**-**	**-**	**19,948**

32 MATURITY PROFILE (continued)

31 December 2021 (Unaudited)	*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 with banks	2,863	-	-	2,863	-	-	-	2,863
Investments	9	-	2,119	2,128	2,730	9,356	13,468	27,682
Investment in an associate	-	-	-	-	-	-	219	219
Wakala contract receivable	6,670	-	-	6,670	-	-	-	6,670
Receivables	-	-	2,540	2,540	2,306	-	-	4,846
Funding to project companies	-	-	-	-	2,290	-	-	2,290
Other assets	136	21	406	563	190	5	-	758
Right-of-use asset	-	-	-	-	-	3,090	-	3,090
Property and equipment	-	-	-	-	-	4,469	-	4,469
Total assets	9,678	21	5,065	14,764	7,516	16,920	13,687	52,887
Liabilities								
Islamic financing payable	13,241	-	-	13,241	-	-	-	13,241
Employee accruals	520	-	65	585	96	316	-	997
Ijarah liability	-	-	3,247	3,247	-	-	-	3,247
Other liabilities	64	637	16,000	16,701	13,984	1,398	-	32,083
Total liabilities	13,825	637	19,312	33,774	14,080	1,714	-	49,568
Net liquidity gap	(4,147)	(616)	(14,247)	(19,010)	(6,564)	15,206	13,687	3,319
Cumulative liquidity gap	(4,147)	(4,763)	(19,010)	(19,010)	(25,574)	(10,368)	3,319	3,319
Commitments and contingencies	-	-	28,359	28,359	3,868	-	10,000	42,227

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

a) Industry sector

31 December 2022 (Audited)	***Trading and manufacturing USD '000***	***Banks and financial institutions USD '000***	***Real estate USD '000***	***Health care USD '000***	***Food and Technology USD '000***	***Oil and gas USD '000***	***Other USD '000***	***Total USD '000***
Assets								
Balances with banks	-	2,633	-	-	-	-	-	**2,633**
Wakala placements with financial institutions	-	228	-	-	-	-	-	**228**
Investments	-	710	4,313	-	10,539	-	3,688	**19,250**
Receivables	-	-	-	-	754	-	27	**781**
Funding to project companies	-	-	2,283	-	-	-	-	**2,283**
Other assets	-	-	729	-	139	-	462	**1,330**
Right-of-use asset	-	-	-	-	-	-	3,477	**3,477**
Property and equipment	-	-	4,262	-	-	-	204	**4,466**
Total assets	**-**	**3,571**	**11,587**	**-**	**11,432**	**-**	**7,858**	**34,448**
Liabilities								
Islamic financing payable	-	13,267	-	-	-	-	-	**13,267**
Employee accruals	-	-	-	-	-	-	493	**493**
Ijarah liability	-	-	-	-	-	-	3,702	**3,702**
Other liabilities	9,375	3,228	8,066	694	8	-	11,890	**33,261**
Total liabilities	**9,375**	**16,495**	**8,066**	**694**	**8**	**-**	**16,085**	**50,723**
Commitments and contingencies	**16,939**	**-**	**-**	**-**	**-**	**-**	**3,009**	**19,948**
Equity of investment account holders	**-**	**44**	**-**	**-**	**-**	**-**	**76**	**120**

31 December 2021 (Unaudited)	*Trading and manufacturing USD '000*	*Banks and financial institutions USD '000*	*Real estate USD '000*	*Health care USD '000*	*Food and Technology USD '000*	*Oil and gas USD '000*	*Other USD '000*	*Total USD '000*
Assets								
Balances with banks	-	2,863	-	-	-	-	-	2,863
Investments	-	1,501	3,812	1,854	8,755	285	11,475	27,682
Investment in an associate	-	-	-	-	-	-	219	219
Wakala contract receivable	-	6,670	-	-	-	-	-	6,670
Receivables	-	-	-	-	4,786	-	60	4,846
Funding to project companies	-	-	2,290	-	-	-	-	2,290
Other assets	-	-	46	-	182	-	530	758
Right-of-use asset	-	-	-	-	-	-	3,090	3,090
Property and equipment	-	-	4,299	-	-	-	170	4,469
Total assets	-	11,034	10,447	1,854	13,723	285	15,544	52,887
Liabilities								
Islamic financing payable	-	13,241	-	-	-	-	-	13,241
Employee accruals	-	-	-	-	-	-	997	997
Ijarah Liability	-	-	-	-	-	-	3,247	3,247
Other liabilities	14,691	3,228	1,028	-	8	-	13,128	32,083
Total liabilities	14,691	16,469	1,028	-	8	-	17,372	49,568
Commitments and contingencies	27,275	-	11,138	805	-	-	3,009	42,227
Equity of investment account holders	-	44	-	-	-	-	91	135

33 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:

31 December 2022 (Audited)	***GCC countries USD '000***	***Other MENA countries USD '000***	***Europe USD '000***	***Cayman Islands / Americas USD '000***	***Total USD '000***
Assets					
Balances with banks	2,633	-	-	-	**2,633**
Wakala placements with financial institutions	228	-	-	-	**228**
Investments	8,711	10,539	-	-	**19,250**
Receivables	27	754	-	-	**781**
Funding to project companies	2,283	-	-	-	**2,283**
Other assets	1,187	139	-	4	**1,330**
Right-of-use asset	3,477	-	-	-	**3,477**
Property and equipment	4,466	-	-	-	**4,466**
Total assets	**23,012**	**11,432**	**-**	**4**	**34,448**
Liabilities					
Islamic financing payable	13,267	-	-	-	**13,267**
Employee accruals	493	-	-	-	**493**
Ijarah Liability	3,702	-	-	-	**3,702**
Other liabilities	23,700	9,383	178	-	**33,261**
Total liabilities	**41,162**	**9,383**	**178**	**-**	**50,723**
Commitments and contingencies	3,009	16,939	-	-	**19,948**
Equity of investment account holders	120	-	-	-	**120**

31 December 2021 (Unaudited)	*GCC countries USD '000*	*Other MENA countries USD '000*	*Europe USD '000*	*Cayman Islands / Americas USD '000*	*Total USD '000*
Assets					
Balances with banks	2,863	-	-	-	2,863
Investments	18,642	9,040	-	-	27,682
Investment in an associate	219	-	-	-	219
Wakala contract receivable	6,670	-	-	-	6,670
Receivables	2,600	2,246	-	-	4,846
Funding to project companies	2,290	-	-	-	2,290
Other assets	632	125	-	1	758
Right-of-use asset	3,090	-	-	-	3,090
Property and equipment	4,469	-	-	-	4,469
Total assets	41,475	11,411	-	1	52,887
Liabilities					
Islamic financing payable	13,241	-	-	-	13,241
Employee accruals	997	-	-	-	997
Ijarah Liability	3,247	-	-	-	3,247
Other liabilities	17,197	14,700	186	-	32,083
Total liabilities	34,682	14,700	186	-	49,568
Commitments and contingencies	14,092	27,275	860	-	42,227
Equity of investment account holders	135	-	-	-	135

34 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 consolidated financial statements. At the reporting date, the Group had assets under management of US$ 479 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.

35 COMMITMENTS AND CONTINGENCIES

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

	31 December 2022 USD '000 (Audited)	*31 December 2021 USD '000 (Unaudited)*
Letters of guarantee*	**19,948**	31,832
Commitments to invest	**-**	10,395
	19,948	42,227

During the year, certain letters of guarantee, which were provided for in the books have now been recognised in the books as a liability. Accordingly, the off-balance sheet exposure has been removed from the books.

* As at 31 December 2022, the Group has a provision amounting to USD 11.01 million (31 December 2021: USD 14.73 million) on the outstanding letters of guarantee (note 18).

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group as at 31 December 2022 due to the performance of any of its projects.

Litigations and claims

The Group has a number of claims and litigations filed against it in connection with with certain transactions in the past. Further, claims against the Bank also have been filed by former employees. Based on the advice of the Bank's external legal counsel, the management is of the opinion that the Bank has strong grounds to successfully defend itself against these claims. Appropriate provision have been made in the books of accounts. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors of the Bank believe that such disclosures may be prejudicial to the Bank's legal position.

On 20 May 2021, the Bank received a final judgment 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.

35 *COMMITMENTS AND CONTINGENCIES (continued)*

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 16,524 thousand (30 June 2021: USD 15,232 thousand). In addition to the corporate guarantees, the investee company has also pledged its primary asset to the lender against these obligations. While the depreciated cost of the asset exceeds the outstanding obligation of the investee company, the fair value of the asset is difficult to ascertain due to the operations of the investee company being on halt due to current economic conditions. Management is working on several strategic options to revive the company's operations in order to enhance the value of the company and its assets. 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.

36 RISK MANAGEMENT AND CAPITAL ADEQUACY

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

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

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

a) Credit risk

Credit risk is the risk that the counterparty to a financial instrument does not discharge its obligations on due dates and cause the other party to incur a financial loss. The Group's credit risk arises mainly from the balances with banks, murabaha financing to investee companies, receivables, funding to project companies, wakala contract receivable 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 31 December 2022.

36 *RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)*

a) 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. The expected timelines of recovery are set out in note 33.

Definition of default

The Group considers a financial asset to be in default when the obligor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as liquidating collateral; or usually when the obligor is past due more than 90 days for any material credit obligation to the Group. In assessing whether an obligor is in default, the Group considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment of another obligation by the same issuer to the Group.

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

	31 December 2022 USD '000	*31 December 2021 USD '000*
Balances with banks	**-**	158
Murabaha financing to investee companies	**3,499**	1,703
Wakala contract receivable	**13,341**	13,341
Receivables	**6,770**	9,229
Funding to project companies	**1,130**	1,136
Other assets	**10,537**	9,498
Total	**35,277**	35,065

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 31 December 2022, the total gross credit exposure to individual counterparties which comprised 10% or more of the Group's equity was USD 44 million relating to 22 counterparties (31 December 2021: USD 59 million relating to 13 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.

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. The expected maturity profile of assets and liabilities are set out in note 32.

36 *RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)*

c) Liquidity risk (continued)

31 December 2022 (Audited)	***Gross undiscounted cash flows*** ***Up to 3 months USD '000***	***3 to 6 months USD '000***	***6 months to 1 year USD '000***	***1 to 3 years USD '000***	***Over 3 years USD '000***	***No Fixed Maturity USD '000***	***Total USD '000***
Liabilities							
Islamic financing payable	**13,267**	**-**	**-**	**-**	**-**	-	**13,267**
Employee accruals	**19**	**-**	**-**	**-**	**474**	-	**493**
Ijarah liability	**-**	**-**	**89**	**-**	**3,613**	-	**3,702**
Other liabilities	**186**	**1,419**	**11,262**	**20,342**	**52**	-	**33,261**
Total financial liabilities	**13,472**	**1,419**	**11,351**	**20,342**	**4,139**	**-**	**50,723**
Commitments and contingencies	**-**	**-**	**16,939**	**3,009**	**-**	**-**	**19,948**
Equity of investment account holders	**44**	**-**	**-**	**76**	**-**	**-**	**120**

31 December 2021 (Unaudited)	*Gross undiscounted cash flows* *Up to 3 months USD '000*	*3 to 6 months USD '000*	*6 months to 1 year USD '000*	*1 to 3 years USD '000*	*Over 3 years USD '000*	*No Fixed Maturity USD '000*	*Total USD '000*
Liabilities							
Islamic financing payable	13,241	-	-	-	-	-	13,241
Employee accruals	520	-	65	96	316	-	997
Ijarah liability	-	-	3,247	-	-	-	3,247
Other liabilities	64	637	16,000	13,984	1,398	-	32,083
Total financial liabilities	13,825	637	19,312	14,080	1,714	-	49,568
Commitments and contingencies	-	-	28,359	3,868	-	10,000	42,227
Equity of investment account holders	44	-	-	91	-	-	135

36 *RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)*

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.

(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:

	31 December 2022 (Audited)	*31 December 2021 (Unudited)*
Islamic financing payables	**6.00%**	6.00%

Sensitivity analysis

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

	Effect on consolidated statement of income	
	31 December 2022 USD '000 (Audited)	*31 December 2021 USD '000 (Unudited)*
100 bps parallel increase / (decrease)		
Islamic financing payables	**± 133**	± 132

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, Great Britain Pounds and Turkish Lira. The Group seeks to manage currency risk by continually monitoring exchange rates and exposures.

The Group had the following significant currency exposures as of 31 December:

	31 December 2022 USD '000 (Audited)	*31 December 2021 USD '000 (Unudited)*
Kuwaiti Dinars	**70**	11
Great Britain Pounds	**-**	-
Turkish Lira	**22,865**	22,251

36 *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 2022 and 30 June 2021 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.

		31 December 2022		*31 December 2021*	
		(Audited)		*(Unaudited)*	
	Change in currency rates	**Effect on income USD '000**	**Effect on equity USD '000**	*Effect on income USD '000*	*Effect on equity USD '000*
Kuwaiti Dinars	+10%	**7**	**7**	1	1
Great Britain Pounds	+10%	**-**	**-**	-	-
Turkish Lira	+10%	**2,287**	**2,287**	2,225	2,225
Kuwaiti Dinars	-10%	**(7)**	**(7)**	(1)	(1)
Great Britain Pounds	-10%	**-**	**-**	-	-
Turkish Lira	-10%	**(2,287)**	**(2,287)**	(2,225)	(2,225)

(iii) Other price risk

The Group's investments at fair value through equity are 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 these 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 at fair value through equity, due to a reasonably possible change in equity indices or net asset values, with all other variables held constant, is as follows:

		31 December 2022		*31 December 2021*	
		(Audited)		*(Unaudited)*	
	Change in equity price risk	**Effect on income USD '000**	**Effect on equity USD '000**	*Effect on income USD '000*	*Effect on equity USD '000*
Trading Securities	**-**	**3**	**3**	1	1

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.

36 *RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)*

f) Capital management

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

The Group's regulatory capital position was as follows based on the consolidated prudential information report for Islamic banks prepared by the Group's management as of the date of these consolidated financial statements:

	31 December 2022 USD '000 (Audited)	*31 December 2021 USD '000 (Unudited)*
Total risk weighted assets	**399,134**	571,067
CET1 capital	**(18,612)**	2,141
Tier 2 capital	**1,914**	2,231
Total regulatory capital	**(16,698)**	4,372
Total regulatory capital expressed as a percentage of total risk weighted assets	**-4.18%**	0.77%
Minimum requirement	**12.5%**	12.5%

Total Common Equity Tier 1 capital comprises of 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 of unrealised gains arising from fair valuing equity securities supported by independent valuations. Certain adjustments are made to IFRS and AAOIFI based results and reserves, as prescribed by the CBB.

Total CAR amounting (4.18)% as of 31 December 2022, is in breach of the minimum requirement of 12.5% as prescribed under CA-2.2.1 of Volume 2 of the CBB rule book.

Tier 1 and CET1 CAR of (4.66)%, which is in breach of the minimum requirement of 10.5% as prescribed under CA-2.2.1 of Volume 2 of the CBB rule book.

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.

37 FAIR VALUE

Fair value hierarchy
Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. This represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

As at 31 December 2022 and 31 December 2021, the fair value of bank balances, placements with financial institutions, other financial assets, placements from financial and other institutions and other financial liabilities are not expected to be materially different from their carrying values as these are short term in nature and are re-priced frequently to market rates, where applicable. Investment securities carried at fair value through income statement are carried at their fair values determined using quoted market prices and internal valuation models.

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

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. as derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data; and
Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted market prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity indices, EBITDA multiples and revenue multiples and expected price volatilities and correlations.

The Group uses proprietary valuation models, which are usually developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Company believes that a third-party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company and the counterparty where appropriate.

Model inputs and values are calibrated against historical data and published forecasts and, when possible, against current or recent observed transactions and broker quotes. This calibration process is inherently subjective, and it yields ranges of possible inputs and estimates of fair value, and management judgement is required to select the most appropriate point in the range.

37 *FAIR VALUE (continued)*

The table below analyses financial instruments, measured at fair value as at the end of the period, by level in the fair value hierarchy into which the fair value measurement is categorized:

31 December 2022 (Audited)	**Level 1**	**Level 2**	**Level 3**	**Total**
	USD '000	**USD '000**	**USD '000**	**USD '000**
i **Proprietary investments**				
Investment securities carried at fair value through:				
- income statement	-	-	11,446	**11,446**
- equity	-	-	7,770	**7,770**
	-	**-**	**19,216**	**19,216**
ii **Treasury portfolio**				
Investments carried at fair value through:				
- income statement	-	34	-	**34**
- equity	-	-	-	**-**
	-	**34**	**-**	**34**
	-	**34**	**19,216**	**19,250**

31 December 2021 (Unaudited)	Level 1	Level 2	Level 3	Total
	USD '000	USD '000	USD '000	USD '000
i Proprietary investments				
Investments carried at fair value through:				
- income statement	-	-	14,515	14,515
- equity	-	-	13,158	13,158
	-	**-**	27,673	27,673
ii Treasury portfolio				
Investments carried at fair value through:				
- income statement	-	9	-	9
- equity	-	-	-	-
	-	9	-	9
	-	9	27,673	27,682

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:

	31 December 2022 USD 000 (Audited)	*31 December 2021 USD 000 (Unaudited)*
At 1 January	**14,515**	22,726
Fair value (losses) / gains recognised in the consolidated statement of income	**(1,610)**	(525)
Sale of investments during the year	**(2,406)**	(7,686)
Additions during the year	**947**	-
At 31 December	**11,446**	14,515

37 *FAIR VALUE (continued)*

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:

	31 December 2022 USD 000 (Audited)	*31 December 2021 USD 000 (Unaudited)*
At 1 January	**13,158**	36,726
Additions during the year	**2,278**	9,546
Impairment recognised during the year	**(7,195)**	(445)
Fair value reserve	**(471)**	1,008
Sale of investments during the year	**-**	(1,179)
Transfer of settlement of debt	**-**	(32,498)
At 31 December	**7,770**	13,158

The potential effect of using reasonable possible alternative assumptions for fair valuing certain equity investments classified as level 3 are summarised below:

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Investment securities at FVTPL and FVTE	Discounted cash flows: The valuation model considers the present value of the expected cash flows, discounted using a risk-adjusted discount rate.	Expected cash flows Risk adjusted discount	The estimated fair value would increase (decrease) if: - the expected cash flows were higher (lower); or - the risk-adjusted discount rate were lower (higher).
	Market comparison technique: The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee, adjusted for the effect of non-marketability of the equity securities, and revenue and EBITDA of the investee.	EBITDA multiple Discount for lack of marketability	The estimated fair value would increase (decrease) if: - the EBITDA multiple were higher (lower); or - the discount for lack of marketability were lower (higher).
	Adjusted net assets values of investee where major assets valued at fair value	Adjusted net assets	The estimated fair value would increase (decrease) if: - the adjusted net assets were higher (lower)
	Comparable transaction prices	Not applicable	The estimated fair value would increase (decrease) if: the Comparable transaction prices were higher (lower)

37 FAIR VALUE (continued)

Although the Company believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effect:

Profit or loss	***31 December 2022 USD 000 (Audited)***	*31 December 2021 USD 000 (Unaudited)*
WACC (1% increase)	**(387)**	323
Yield (1% increase)	**(84)**	924
Non-marketability factor (10% increase)	**14,490**	(250)
Net asset value (10% increase)	**728**	1,441
At 31 December	**14,747**	2,438
WACC (1% decrease)	**408**	759
Yield (1% decrease)	**126**	1,096
Non-marketability factor (10% increase)	**18,144**	1,326
Net asset value (10% decrease)	**(728)**	(1,441)
At 31 December	**17,950**	1,740

38 SUBSEQUENT EVENTS

Subsequent to the year-end, the bank has:

a 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.

b Subsequent to the year-end, 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.

c Subsequent to the period, the Bank also 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. As of the date of issuance of this consolidated financial statements, the Bank issued AT1 Sukuks at a face value of USD 17 million to its existing AUM investors and creditors.