**Subsequent revisions to certain disclosures included within the published Financial Statements and Corporate Governance Report for the year ended 31st December 2022**

With reference to the previous disclosure issued by GFH Financial Group on February 9, 2023 in relation to the results of the Board of Directors meeting and approval of the annual audited financial statements for the fiscal year ended on December 31, 2022, we would like to note that the Board has taken a decision to reduce the remuneration of the members of the Board of Directors from USD 1.5 million to USD 1.2 million, and hence the table presented in the Chairman's report will be revised as follows:

(BD 000s)

| 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 | Others | Total | Remunerations of the chairman and BOD | Incentive plans | Others** | Total | | | |
| First: Independent Directors: | | | | | | | | | | | |
| Alia Al Falasi | - | 56,409 | - | 56,409 | - | - | - | - | - | 56,409 | - |
| Ghazi Faisal Ebrahim Alhajeri | 75,400 | 107,540 | - | 182,940 | - | - | - | - | - | 182,940 | - |
| Fawaz Al Tamimi | 56,550 | 57,540 | - | 114,090 | - | - | - | - | - | 114,090 | - |
| Ali Murad | 56,550 | 55,278 | - | 111,828 | - | - | - | - | - | 111,828 | - |
| Ahmed Al Ahmadi | - | 26,885 | | 26,885 | - | - | - | - | - | 26,885 | - |
| Edris Mohd Rafi Mohd Saeed Alrafi | 65,975 | 58,294 | | 124,269 | - | - | - | - | - | 124,269 | - |
| Darwish AlKetbi | 56,550 | 54,901 | | 111,451 | - | - | - | - | - | 111,451 | - |
| Yousif Abdulla Taqi | 28,275 | 27,639 | - | 55,914 | - | - | - | - | - | 55,914 | - |
| Second: Non-Executive Directors: | | | | | | | | | | | |
| Jassim Alseddiqi | - | 377 | - | 377 | - | - | - | - | - | 377 | - |
| Rashed Alkaabi | 56,550 | 58,370 | - | 114,920 | - | - | - | - | - | 114,920 | - |
| Third: Executive Directors: | | | | | | | | | | | |
| Hisham Alrayes | 56,550 | 55,278 | - | 111,828 | - | - | - | - | - | 111,828 | - |
| Total | **452,400** | **558,511** | - | **1,010,911** | - | - | - | - | - | **1,010,911** | - |

In addition, the Sharia Supervisory Board (SSB) has also provided their decision to direct the responsibility of paying Zakat to the shareholders, instead of the Bank. Accordingly, SSB Report and appropriation mentioned in Note 18 of the financial statements have been revised to following, respectively:

- 4. Zakah was calculated according to the Islamic Sharia rules and principles, by the net assets method. It is to be noted that the responsibility of paying Zakah lies on the Shareholders of the Bank.
- To allocate an amount of US $ 1,000,000 to civil society organisations

# GFH Financial Group BSC

# CONSOLIDATED FINANCIAL STATEMENTS

# 31 DECEMBER 2022

| | |
|---|---|
| Commercial registration | : 44136 (registered with Central Bank of Bahrain as an Islamic wholesale Bank) |
| Registered Office | : Bahrain Financial Harbour<br>Office: 2901, 29th Floor<br>Building 1398, East Tower<br>Block: 346, Road: 4626<br>Manama, Kingdom of Bahrain<br>Telephone +973 17538538 |
| Directors | : Ghazi Faisal Ebrahim Alhajeri, *Chairman*<br>Edris Mohd Rafi Mohd Saeed Alrafi, *Vice Chairman*<br>Jassim Al Seddiqi, *(resigned wef 04 April 2022)*<br>Hisham Ahmed Alrayes<br>Rashid Nasser Al Kaabi<br>Ali Murad<br>Ahmed Abdulhamid AlAhmadi, *(resigned wef 07 June 2022)*<br>Alia Al Falasi, (*resigned wef 9 November 2022*)<br>Fawaz Talal Al Tamimi<br>Darwish Al Ketbi<br>Yusuf Abdulla Taqi, *(appointed wef 19 June 2022)* |
| Chief Executive Officer | : Hisham Ahmed Alrayes |
| Auditors | :KPMG Fakhro |

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## Chairman's Report – FY2022

Dear Shareholders,

On behalf of the Board of Directors of GFH Financial Group, I am pleased to present the Group's financial results for the fiscal year ended 31 December 2022. While 2022 had initially been penned a year of global economic recovery, an unpredictable geopolitical landscape and strong macroeconomic forces threatened to push major economies into recession.

GFH in 2022 successfully mitigated the impact of the Ukraine crisis, inflation, and market volatility by implementing the same robust model that saw the Group through the COVID-19 pandemic. Following a strategy of long-term, sustainable growth, GFH was able to consolidate its position while also expanding its global footprint, placing the Group in good stead for what could be a turbulent year ahead.

Building on 2021, in which we achieved remarkable growth in profits and income, we continued to demonstrate resilience, diversity, and agility during 2022. Our strength was reflected across verticals, including our investment banking, commercial banking, asset management and treasury business lines.

Our diverse investment portfolio, which spans the GCC, UK, Europe and the US, also continued to perform robustly, with our strategy of targeting defensive, recession-proof sectors once again proving its effectiveness in creating value for investors and shareholders in the face of significant headwinds.

With a stable platform from which to build, GFH was able to expand into global markets through acquiring new portfolios and majority stakes in several leading asset managers. The acquisitions will help the Group to unlock significant value in some of the most promising and resilient sectors in the US and Europe, exposing investors to a raft of opportunities.

As a result of our strategic manoeuvres in 2022, we maintained our sustainable, 22-year-long growth trajectory by enhancing profits and increasing income. The Group's total consolidated revenue was US$441.7 million compared with US$ 398.7 million in 2021, reflecting a year-on-year increase of 10.8%. This growth was due to the success of our business lines and the steady income generated from our investment portfolio as well as strategic exits. Investment management, proprietary, co-investment and treasury activities were all valuable revenue streams in 2022, with the Group actively seeking new income yielding opportunities and ways to maximise value from existing assets.

The Group reported a consolidated net profit of US$97.7 million in 2022 compared to US$92.6 million from the previous year, reflecting an increase of 5.5%, and a net profit attributable to shareholders of US$90.3 million compared with US$ 84.2 million for the previous year, an increase of 7.2%. The Group's total assets for the year grew from US$8.1 billion in 2021 to US$9.8 billion in 2022, an increase of 21%. The Group's Total Assets and Funds Under Management (AUM) increased from $15 billion in 2021 to around US$17.6 billion in 2022, marking a year-on-year increase of 17.3%. The Group also ended the year with a Capital Adequacy Ratio of 14.73% and a Return on Equity (ROE) ratio of ~9%.

One of the positive reflections of our robust performance in 2022 was a reduction in our credit risk profile, which has continually improved over the last few years. Despite significant market volatility, the Group has been able to command a stable and positive position owing to strong liquidity and increasing diversity across asset classes and geographies. Consequently, GFH's long-term issuer credit rating was raised by S&P Global Ratings to 'B' from 'B-', with a stable outlook. At the same time, the agency also raised the credit ratings on sukuk issued by GFH Sukuk Company Ltd to 'B' from 'B-'.

The Improved ratings were partly due to continued revenue resilience over the 2020-2022 period as well as an improvement in ROE to ~9% over the twelve month period ended 31 December 2022. Despite pressure on the Group's treasury activities from rising interest rates in 2022, GFH was able to deliver good investment banking revenue, building on its real estate specialisation in Europe and the US as well as steady commercial banking performance after a restructuring in 2020. The stable outlook indicates that GFH is well placed to reduce its exposure to real estate assets while maintaining moderate capitalisation in the near-term.

We are proud of the confidence ratings agencies and shareholders have consistently shown in GFH. We are equally proud of the milestones we achieved in 2022 which have improved our overall position and prospects, such as introducing new innovative and Sharia-compliant products. For instance, the Group launched and seeded a $100 million sukuk fund which holds a diversified portfolio of sukuk to provide attractive financing and fund administration services.

Additionally, Infracorp, the infrastructure and sustainability arm of GFH, issued a $900 million sukuk on London Stock Exchange, marking the first-ever green sukuk issued by a Bahraini entity. The landmark transaction reflects Infracorp's strategy to accelerate the growth of sustainable infrastructure development across MENA and South Asia regions, while generating long-term returns for investors and adding lasting value to communities. The issuance builds on the Group's sustainability roadmap which aims to position Infracorp as the region's pioneer in sustainability investments.

We also made several important enhancements internally in line with our ESG commitment. In 2022, we formed the ESG Committee, a management level body representing internal departments to oversee the implementation of our ESG strategies. Also, in efforts to develop further the integration of ESG into our investment decision-making processes, a thorough assessment was exercised via external consultants to bridge policy and procedure gaps, and identifying the most significant ESG key topics that impact GFH's business performance in the future. This was developed to be essential part of our annual disclosures, to provide a significant value for all our stakeholders, including the communities within which we operate.

As part of its commitment to value creation, GFH sought to further expand its investor base and enhance liquidity in its shares. The Group achieved this through listing on the Abu Dhabi Securities Exchange (ADX), marking GFH's fourth regional listing, with shares also traded on the Bahrain Bourse (BHB), Dubai Financial Market (DFM) and Boursa Kuwait (BK). Not only has the listing boosted liquidity and investor mix, but it has also helped to ensure the highest levels of disclosure and transparency for the benefit of our shareholders.

Despite tough market conditions in 2022, investor sentiment remained buoyant, with many investors keen to deploy capital at a time when asset valuations underwent a correction. In the twelve months ended December 2022, the Group successfully raised more than US$3.54 billion across its investment banking and treasury business lines. As a result of our robust performance, the Board has recommended a total cash dividend of 6% on par value for our shareholders.

Additional board recommendations were discussed and raised as part of the Group's Annual General Meeting (AGM), which took place on 03 April 2022. Shareholders ratified and approved a total dividend distribution of $60 million. The dividend includes cash profits for all ordinary shares, save for treasury shares at 4.57% of the nominal value of the share (equal to $0.0231 per share, BD0.004562, AED0.0444), equal to $45 million. The recommendation also includes bonus shares of 1.5% of the nominal value of all the ordinary shares (one share per 66.71 shares), equal to $15 million.

As we enter 2023, we are buoyed by our performance in 2022 as well as our proven ability to pivot and adapt during economic downturns. Our elevated position will enable us to navigate the challenges 2023 could bring and continue creating value, capitalising on opportunities and accelerating growth.

On behalf of the Group's Board of Directors, I wish to extend our sincere gratitude to His Majesty King Hamad bin Isa Al Khalifa and His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince, Deputy Supreme Commander and Prime Minister. Their vision and leadership have created an enabling environment that provides a stable and robust foundation for Bahrain's leading financial sector. I would also like to note our appreciation of the Central Bank of Bahrain and the Government of the Kingdom of Bahrain, which have facilitated the rapid growth of Bahrain as a leading regional hub for innovation, fintech and Islamic finance. And of course, I wish to sincerely thank our investors and shareholders for believing in our vision, joining us on our journey of growth and demonstrating continued faith and confidence in our model.

Finally, I wish to congratulate GFH's team on their remarkable achievements in 2022, which have paved the way for another successful year ahead. The commitment and efforts of management and employees across the Group and its subsidiaries have enabled collective value creation that we can all be proud of. Further, the Board of Directors has played a critical role in GFH's growth in 2022, helping to shepherd the Group through uncharted waters.

We are pleased to attach the remuneration of members of the Board of Directors and the Executive Management for the fiscal year ending 31 December 2022.

## First: Remuneration of the Board of directors

| 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 | Others | Total | Remunerations of the chairman and BOD | Incentive plans | Others** | Total | | | |
| First: Independent Directors: | | | | | | | | | | | |
| Alia Al Falasi* | 28,275 | 56,409 | - | 84,684 | - | - | - | - | - | 84,684 | - |
| Ghazi Faisal Ebrahim Alhajeri | 113,100 | 107,540 | - | 220,640 | - | - | - | - | - | 220,640 | - |
| Fawaz Al Tamimi | 56,550 | 57,540 | - | 114,090 | - | - | - | - | - | 114,090 | - |
| Ali Murad | 56,550 | 55,278 | - | 111,828 | - | - | - | - | - | 111,828 | - |
| Ahmed Al Ahmadi* | 28,275 | 26,885 | | 55,160 | - | - | - | - | - | 55,160 | - |
| Edris Mohd Rafi Mohd Saeed Alrafi | 84,825 | 58,294 | | 143,119 | - | - | - | - | - | 143,119 | - |
| Darwish AlKetbi | 56,550 | 54,901 | | 111,451 | - | - | - | - | - | 111,451 | - |
| Yousif Abdulla Taqi | 28,275 | 27,639 | - | 55,914 | - | - | - | - | - | 55,914 | - |
| Second: Non-Executive Directors: | | | | | | | | | | | |
| Jassim Alseddiqi* | - | 377 | - | 377 | - | - | - | - | - | 377 | - |
| Rashed Alkaabi | 56,550 | 58,370 | - | 114,920 | - | - | - | - | - | 114,920 | - |
| Third: Executive Directors: | | | | | | | | | | | |
| Hisham Alrayes | 56,550 | 55,278 | - | 111,828 | - | - | - | - | - | 111,828 | - |
| Total | **565,500** | **558,511** | - | **1,124,011** | - | - | - | - | - | **1,124,011** | - |

** These directors resigned during the year 2022.*

*Notes:*

1. *All amounts in Bahraini Dinars.*
2. *The Bank does not have any variable remuneration payments, end of service benefits, or expense allowances paid to its directors.*
3. *Salaries and other benefits in their capacity as employee is reported in second table below.*

Board remuneration represents allocation of proposed remuneration for 2022 subject to approval of the Annual General Meeting.

**Second: Executive Management Remuneration Details for Top 6 Executives:**

| Executive management | Total paid salaries and allowances | Total paid remuneration (Bonus) | Any other cash/ in kind remuneration for 2021 | Aggregate Amount |
|---|---|---|---|---|
| Remunerations of top 6 executives, including CEO* and CFO** | 1,014,907 | 1,281,800 | 1,922,700 | 4,219,407 |

**All amounts in Bahraini Dinars.**

***** The highest authority in the executive management of the company, the name may vary: (CEO, President, General Manager (GM), Managing Director...etc.

** The company's highest financial officer (CFO, Finance Director, ...etc)

Notes:

1. A significant portion of executive management remuneration are subject to deferral over a minimum period of 3 years as per regulations of the Central Bank of Bahrain. In addition to the paid benefits reported above, the Bank also operates a long-term share incentive scheme award that that allows employees to participate in a share-ownership plan. The Bank allocates shares awards that vest over a period of 6 years under normal terms and are subject to future performance conditions. The non-cash accounting charge recognized for 2022 amounted to BD 2,613 thousand determined in accordance with the requirements of IFRS 2. Refer to the Remuneration related and share-based payment disclosures in the Annual Report for a better understanding of the Bank's variable remuneration framework components.

2. Remuneration information above exclude any Board remuneration earned by executive management from their role in the board of investee companies or other subsidiaries.

Thank you,

**Ghazi Faisal Ebrahim AlHajeri**

*Chairman*

GFH Financial Group

**7 February 2023**
**16 Rajab 1444 AH**

**SHARIA SUPERVISORY BOARD REPORT TO THE SHAREHOLDERS**
**Report on the activities of GFH Financial Group B.S.C.**
**for the financial year ending 31 December 2022**

**Prayers and Peace Upon the Last Apostle and Messenger, Our prophet Mohammed, His comrades and Relatives.**

The Sharia Supervisory Board of GFH Financial Group has reviewed the Bank's investment activates and compared them with the previously issued fatawa and rulings during the financial year 31st December 2022.

*Respective Responsibility of Sharia Supervisory Board*

The Sharia Supervisory Board believes that as a general principle and practice, the Bank Management is responsible for ensuring that it conducts its business in accordance with Islamic Sharia rules and principles. The Sharia Supervisory Board responsibility is to express an independent opinion on the basis of its control and review of the Bank's operations and to prepare this report.

*Basis of opinion*

Based on Sharia Supervisory Board fatwas and decisions, AAOIFI standards and Sharia Audit plan, the Sharia Supervisory Board through its periodic meetings reviewed the Sharia Audit function reports and examined the compliance of documents and transactions in regards to Islamic Sharia rules and principles, in coordination with Sharia Implementation & Coordination function. Furthermore, the Bank's management explained and clarified the contents of Consolidated Balance Sheet, Consolidated Income Statement, Consolidated statement of Zakah and Charity fund, and attached notes for the financial year ended on 31st December 2020 to our satisfaction.

*Opinion*

The Sharia Supervisory Board believes that,

1. The contracts, transactions and dealings entered into by the Bank are in compliance with Islamic Sharia rules and principles.
2. The distribution of profit and allocation of losses on investments was in line with the basis and principles approved by the Sharia Supervisory Board and in accordance to the Islamic Sharia rules and principles
3. Any earnings resulted from sources or means prohibited by the Islamic Sharia rules and principles, have been directed to the Charity account.
4. Zakah was calculated according to the Islamic Sharia rules and principles, by the net assets method. It is to be noted that the bank will pay a portion pf Zakat amount due at the rate of 6% and the shareholders are responsible for paying the remaining part that the procedural action will be taken after obtaining the approval of the Ordinary General Assembly.
5. The Bank was committed to comply with Islamic Sharia rules and principles, the Sharia Supervisory Board fatawa and guidelines, Sharia related policies and procedures, AAOIFI's Sharia standards, and Sharia directives issued by the CBB.

We extend our sincere thanks to all the regulatory authorities in the Kingdom of Bahrain and abroad for their support in the procedural matters. Praise be to Allah, Lord of the worlds. Prayer on Prophet Mohammed (Peace Be Upon Him), all his family and Companions.

**Sheikh Nedham Yaqoubi** | **Sheikh Abdulla Al Menai**

**Sheikh Abdulaziz Al Qassar** | **Sheikh Fareed Hadi**

KPMG Fakhro
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P.O. Box 710, Manama,
Kingdom of Bahrain

Telephone +973 17224807
Telefax +973 17227443
Website: home.kpmg/bh
CR No. 6220-2

# Independent auditors' report

**To the Shareholders of**

*GFH Financial Group B.S.C.*
*PO Box 10006*
*Manama*
*Kingdom of Bahrain*

## Opinion

We have audited the accompanying consolidated financial statements of GFH Financial Group Bank B.S.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 owners' equity, cash flows, changes in restricted investment accounts and sources and uses of zakah and charity fund for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and consolidated results of its operations, changes in owners' equity, its cash flows, changes in restricted investment accounts and its sources and uses of zakah and charity fund for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI").

In our opinion, the Group has also 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 Opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions ("ASIFIs") issued by AAOIFI. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Impairment allowance on financing assets**

Refer accounting policy in note 4(h) (i) and (q) , use of estimates and judgments in note 5 and management of credit risk in note 35 (a).

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| We focused on this area because:<br><br>• of the significance of financing assets representing 15% of total assets.<br><br>• The estimation of expected credit losses ("ECL") on financing assets involve significant judgment and estimates. The key areas where we identified greater level of management judgment and estimates are:<br><br>*a. Use of complex models*<br>Use of inherently judgmental complex models to estimate ECL which involves determining Probabilities of default ("PD"), Loss Given Default ("LGD") and Exposure At default ("EAD"). The PD models are considered the drivers of the ECLs.<br><br>*b. Economic scenarios*<br>The need to measure ECLs on an unbiased forward-looking basis incorporating a range of economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weightings applied to them.<br><br>*c. Management overlays*<br>Adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks. Such adjustments are inherently uncertain and significant management judgment is involved in estimating these amounts. | Our procedures included:<br><br>***Control testing***<br>We performed walk throughs to identify the key systems, applications and controls used in the ECL processes. Key aspects of our controls testing involved the following:<br><br>• testing the design and operating effectiveness of the key controls over the completion and accuracy of the key inputs and assumptions into the ECL Model;<br><br>• evaluating the design and operating effectiveness of the key controls over the application of staging criteria;<br><br>• evaluating controls over validation, implementation, and model monitoring;<br><br>• evaluating controls over authorization and calculation of post model adjustments and management overlays; and<br><br>• testing key controls relating to selection and implementation of material macro-economic variables and the controls over the scenario selection and probabilities.<br><br>***Tests of details***<br>• Sample testing over key inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecast, weights, and PD assumptions applied; and<br><br>• Selecting a sample of post model adjustments to assess the reasonableness of the adjustments by challenging key assumptions, inspecting the calculation methodology and tracing a sample of the data used back to the source data. |

*Key Audit Matters (continued)*

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| | ***Use of specialists***<br>• We involved our information technology specialists in testing the relevant general IT and applications controls over the key systems used in the ECL process;<br><br>• We involved our credit risk specialists to assist us in:<br>a. evaluating the appropriateness of the Groups' ECL methodologies (including the staging criteria used);<br>b. on a test basis, re-performing the calculation of certain components of the ECL model (including the staging criteria);<br>c. evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weighing applied to them; and<br>d. evaluating the overall reasonableness of the management economic forecast by comparing it to external market data.<br><br>***Disclosure**s*<br>Evaluating the adequacy of the Group's disclosures related to ECL on financing assets by reference to the relevant accounting standards. |

**Valuation of unquoted equity investments**

Refer accounting policy in note 4g(iv) and fair value of level 3 financial instruments in note 33.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| We considered this as a key audit area we focused on because the valuation of unquoted equity securities held at fair value (level 3) requires the application of valuation techniques which often involve the exercise of significant judgment by the Group and the use of significant unobservable inputs and assumptions. | Our procedures included:<br><br>• we involved our own valuation specialists to assist us in:<br>  • evaluating the appropriateness of the valuation methodologies used by comparing with observed industry practice;<br>  • evaluating the reasonableness of key input and assumptions used by using our knowledge of the industries in which the investees operate and industry norms. |

*Key Audit Matters (continued)*

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| | • comparing the key underlying financial data and inputs used in the valuation to external sources, investee company financial and management information, as applicable.<br><br>**Disclosures**<br>Evaluating the adequacy of the Group's disclosures related to valuation of unquoted equity instruments by reference to the relevant accounting standards. |

## Other Information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the Chairman's report and other sections which forms part of the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Board of Directors for the Consolidated Financial Statements

The board of directors is 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.

The board of directors is also responsible for the preparation and fair presentation of the consolidated financial statements in accordance with FAS, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the 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 the board of directors 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 objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ASIFIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ASIFIs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
– Conclude on the appropriateness of the board of directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors’ report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## 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, we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;
c) we are not aware of any 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), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or 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.

The engagement partner on the audit resulting in this independent auditors' report is Mahesh Balasubramanian.

KPMG

KPMG Fakhro
Partner Registration Number 137
9 February 2023

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
**as at 31 December 2022**

US$ 000's

| | Note | 31 December 2022 | 31 December 2021 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and bank balances | 6 | 858,239 | 722,471 |
| Treasury portfolio | 7 | 4,210,020 | 3,131,246 |
| Financing assets | 8 | 1,435,238 | 1,311,002 |
| Investment in real estate | 9 | 1,287,085 | 1,905,598 |
| Proprietary investments | 10 | 1,005,053 | 170,317 |
| Co-investments | 11 | 142,051 | 171,877 |
| Receivables and other assets | 12 | 589,869 | 531,488 |
| Property and equipment | 13 | 232,736 | 139,687 |
| **Total assets** | | **9,760,291** | 8,083,686 |
| **LIABILITIES** | | | |
| Clients' funds | | 123,300 | 216,762 |
| Placements from financial institutions | | 3,790,870 | 2,278,480 |
| Placements from non-financial institutions and individuals | 14 | 1,064,258 | 773,612 |
| Current accounts | | 131,234 | 133,046 |
| Term financing | 15 | 1,942,198 | 1,750,667 |
| Other liabilities | 16 | 423,363 | 404,654 |
| **Total liabilities** | | **7,475,223** | 5,557,221 |
| **Total equity of investment account holders** | 17 | **1,213,674** | 1,358,344 |
| **OWNERS' EQUITY** | | | |
| Share capital | 18 | 1,015,637 | 1,000,637 |
| Treasury shares | | (105,598) | (48,497) |
| Statutory reserve | | 36,995 | 27,970 |
| Investment fair value reserve | | (53,195) | (28,561) |
| Foreign currency translation reserve | | - | (70,266) |
| Retained earnings | | 95,831 | 81,811 |
| Share grant reserve | 19 | 6,930 | - |
| **Total equity attributable to shareholders of Bank** | | **996,600** | 963,094 |
| Non-controlling interests | | 74,794 | 205,027 |
| **Total owners' equity** | | **1,071,394** | 1,168,121 |
| **Total liabilities, equity of investment account holders and owners' equity** | | **9,760,291** | 8,083,686 |

The consolidated financial statements were approved by the Board of Directors on 9 February 2023 and signed on its behalf by:

Ghazi Faisal Ebrahim Alhajeri
*Chairman*

Hisham Alrayes
*Chief Executive Officer & Board member*

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements

## CONSOLIDATED INCOME STATEMENT
**for the year ended 31 December 2022**

US$ 000's

| | Note | 2022 | 2021 |
|---|---|---|---|
| ***Investment banking income*** | | | |
| Deal related income | | 86,967 | 102,304 |
| Fees based income | | 33,536 | 8,083 |
| | | **120,503** | 110,387 |
| ***Commercial banking income*** | | | |
| Income from financing | | 94,751 | 79,333 |
| Treasury and investment income | | 61,021 | 55,258 |
| Fee and other income | | 9,211 | 4,630 |
| Less: Return to investment account holders | 17 | (38,051) | (31,710) |
| Less: Finance expense | | (47,960) | (35,685) |
| | | **78,972** | 71,826 |
| ***Income from proprietary and co-investments*** | | | |
| Direct investment income, net | | 68,815 | 14,670 |
| Income from co-investments, net | | 22,915 | 14,280 |
| Share of profit / (loss) from equity-accounted investees | | 12,437 | (61) |
| Income from sale of assets | | 13,388 | 24,885 |
| Leasing and operating income | | 7,753 | 4,959 |
| | | **125,308** | 58,733 |
| ***Treasury and other income*** | | | |
| Finance and treasury portfolio income, net | | 96,977 | 107,159 |
| Other income, net | 20 | 19,910 | 50,643 |
| | | **116,887** | 157,802 |
| **Total income** | | **441,670** | 398,748 |
| Staff costs | 21 | 70,415 | 63,231 |
| Other operating expenses | 22 | 77,532 | 70,299 |
| Finance expense | | 192,706 | 137,020 |
| Impairment allowances | 23 | 3,310 | 35,581 |
| **Total expenses** | | **343,963** | 306,131 |
| **Profit for the year** | | **97,707** | 92,617 |
| **Attributable to:** | | | |
| Shareholders of the Bank | | 90,253 | 84,224 |
| Non-controlling interests | | 7,454 | 8,393 |
| | | **97,707** | 92,617 |
| **Earnings per share** | | | |
| Basic and diluted earnings per share (US cents) | | **2.65** | 2.60 |

Ghazi Faisal Ebrahim Alhajeri
*Chairman*

Hisham Alrayes
*Chief Executive Officer & Board member*

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
**for the year ended 31 December 2022**

US$ 000's

| | Attributable to shareholders of the Bank | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **31 December 2022** | **Share capital** | **Treasury shares** | **Statutory reserve** | **Investment fair value reserve** | **Foreign currency translation reserve** | **Retained earnings** | **Share grant reserve** | **Total** | **Non-Controlling Interests (NCI)** | **Total owners' equity** |
| Balance at 1 January 2022 | 1,000,637 | (48,497) | 27,970 | (28,561) | (70,266) | 81,811 | - | 963,094 | 205,027 | 1,168,121 |
| Profit for the period | - | - | - | - | - | 90,253 | - | 90,253 | 7,454 | 97,707 |
| Transfer on reclassification from FVTE to amortised cost (Note 7) | - | - | - | 41,320 | - | - | - | 41,320 | - | 41,320 |
| Fair value changes during the period | - | - | - | (63,312) | - | - | - | (63,312) | (2,462) | (65,774) |
| Transfer to income statement on disposal of sukuk | - | - | - | (2,642) | - | - | - | (2,642) | - | (2,642) |
| **Total recognised income and expense** | **-** | **-** | **-** | **(24,634)** | **-** | **90,253** | **-** | **65,619** | **4,992** | **70,611** |
| Bonus shares issued for 2021 | 15,000 | - | - | - | - | (15,000) | - | - | - | - |
| Dividend declared for 2021 | - | - | - | - | - | (45,000) | - | (45,000) | - | (45,000) |
| Purchase of treasury shares | - | (79,141) | - | - | - | - | - | (79,141) | - | (79,141) |
| Sale / vesting of treasury shares | - | 22,040 | - | - | - | (5,725) | - | 16,315 | - | 16,315 |
| Transfer to zakah and charity fund | - | - | - | - | - | (1,483) | - | (1,483) | - | (1,483) |
| Transferred to income statement on deconsolidation of subsidiaries (Note 37) | - | - | - | - | 70,266 | - | - | 70,266 | - | 70,266 |
| Transfer to statutory reserve | - | - | 9,025 | - | - | (9,025) | - | - | - | - |
| Increase in NCI | - | - | - | - | - | - | - | - | 6,492 | 6,492 |
| Issue of shares under incentive scheme (note 19) | - | - | - | - | - | - | 6,930 | 6,930 | - | 6,930 |
| Adjusted on deconsolidation of subsidiaries (note 37) | - | - | - | - | - | - | - | - | (141,717) | (141,717) |
| **Balance at 31 December 2022** | **1,015,637** | **(105,598)** | **36,995** | **(53,195)** | **-** | **95,831** | **6,930** | **996,600** | **74,794** | **1,071,394** |

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY**
**for the year ended 31 December 2022** *(continued)*

US$ 000's

| 31 December 2021 | Share capital | Treasury shares | Statutory reserve | Investment fair value reserve | Foreign currency translation reserve | Retained earnings | Share grant reserve | Total | Non – controlling interests | Total owners' equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Attributable to shareholders of the Bank | | | | | | | | | |
| Balance at 1 January 2021 (as previously reported) | 975,637 | (63,978) | 19,548 | 5,592 | (46,947) | 22,385 | 1,093 | 913,330 | 272,733 | 1,186,063 |
| Effect of adoption of FAS 32 | - | - | - | - | - | (2,096) | - | (2,096) | - | (2,096) |
| Balance at 1 January 2021 (restated) | 975,637 | (63,978) | 19,548 | 5,592 | (46,947) | 20,289 | 1,093 | 911,234 | 272,733 | 1,183,967 |
| Profit for the year | - | - | - | - | - | 84,224 | - | 84,224 | 8,393 | 92,617 |
| Fair value changes during the year | - | - | - | (786) | - | - | - | (786) | 62 | (724) |
| Transfer to income statement on disposal of sukuk | - | - | - | (33,367) | - | - | - | (33,367) | - | (33,367) |
| Total recognised income and expense | - | - | - | (34,153) | - | 84,224 | - | 50,071 | 8,455 | 58,526 |
| Bonus Shares issued for 2020 | 25,000 | - | - | - | - | (25,000) | - | - | - | - |
| Dividends declared for 2020 | - | - | - | - | - | (17,000) | - | (17,000) | - | (17,000) |
| Transfer to zakah and charity fund | - | - | - | - | - | (1,572) | - | (1,572) | (142) | (1,714) |
| Transfer to statutory reserve | - | - | 8,422 | - | - | (8,422) | - | - | - | - |
| Purchase of treasury shares | - | (45,025) | - | - | - | - | - | (45,025) | - | (45,025) |
| Sale / vesting of treasury shares | - | 60,506 | - | - | - | 5,121 | - | 65,627 | - | 65,627 |
| Foreign currency translation differences | - | - | - | - | (23,319) | - | - | (23,319) | (5,965) | (29,284) |
| Acquisition of NCI without a change in control | - | - | - | - | - | 23,078 | - | 23,078 | (70,054) | (46,976) |
| Extinguishment of Share grant reserve to (retained earnings) | - | - | - | - | - | 1,093 | (1,093) | - | - | - |
| Balance at 31 December 2021 | 1,000,637 | (48,497) | 27,970 | (28,561) | (70,266) | 81,811 | - | 963,094 | 205,027 | 1,168,121 |

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS
**for the year ended 31 December 2022** US$ 000's

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit for the year | 97,707 | 92,617 |
| Adjustments for: | | |
| Income from proprietary and co-investments | (125,308) | (58,733) |
| Income from treasury and other income | (116,887) | (157,802) |
| Foreign exchange gain | (4,853) | (2,190) |
| Finance expense | 192,706 | 137,020 |
| Impairment allowances | 3,310 | 35,581 |
| Depreciation and amortisation | 5,841 | 2,541 |
| | **52,516** | 49,034 |
| Changes in: | | |
| Placements with financial institutions (original maturities of more than 3 months) | (475,696) | 6,541 |
| Financing assets | (169,271) | (98,555) |
| Receivables and other assets | (177,000) | (65,637) |
| CBB Reserve and restricted bank balance | (12,676) | (13,612) |
| Clients' funds | (93,462) | 85,827 |
| Placements from financial institutions | 1,520,053 | 366,126 |
| Placements from non-financial institutions and individuals | 290,646 | 267,966 |
| Current accounts | (1,812) | (7,710) |
| (Return to) / receipt from equity of investment account holders | (144,670) | 201,351 |
| Other liabilities | (113,660) | (60,384) |
| **Net cash generated from operating activities** | **674,968** | 730,947 |
| **INVESTING ACTIVITIES** | | |
| Payments for purchase of equipment, net | (1,818) | (3,604) |
| Proceeds from sale of proprietary and co-investments, net | 30,441 | 13,391 |
| Cash transferred on deconsolidation of a subsidiary | (80,119) | - |
| Purchase of treasury portfolio, net | (467,860) | (1,177,088) |
| Profit received on treasury portfolio and other income | 111,054 | 95,759 |
| Proceeds from sale of investment in real estate | 19,209 | 9,741 |
| Dividends received from proprietary and co-investments | 55,235 | 18,030 |
| Payment for development of real estate asset | (65,809) | (6,515) |
| Cash paid on acquisition of subsidiaries | (7,112) | - |
| **Net cash used in investing activities** | **(406,779)** | (1,050,286) |
| **FINANCING ACTIVITIES** | | |
| Term financing, net | 215,998 | 701,035 |
| Finance expense paid | (204,649) | (190,713) |
| Dividends paid | (44,818) | (17,575) |
| (Purchase) / sale of treasury shares, net | (38,000) | 15,481 |
| **Net cash (used) in / generated from financing activities** | **(71,469)** | 508,228 |
| **Net increase in cash and cash equivalents during the year** | **196,720** | 188,889 |
| Cash and cash equivalents at 1 January * | 844,344 | 655,455 |
| **Cash and cash equivalents at 31 December** | **1,041,064** | 844,344 |
| Cash and cash equivalents comprise: * | | |
| Cash and balances with banks (excluding CBB Reserve balance and restricted cash) | 787,479 | 664,388 |
| Placements with financial institutions (original maturities of 3 months or less) | 253,585 | 179,956 |
| | **1,041,064** | 844,344 |

** net of expected credit loss of US$ 11 thousand (31 December 2021: US$ 24 thousand)*

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
**for the year ended 31 December 2022**

| **31 December 2022** | **Balance at 1 January 2022** | | | **Movements during the year** | | | | | | **Balance at 31 December 2022** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | No. of units (000) | Average value per share US$ | Total US$ 000's | Investment/ (withdrawal) US$ 000's | Revaluation US$ 000's | Gross income US$ 000's | Dividends paid US$ 000's | Group's fees as an agent US$ 000's | Administration expenses US$ 000's | No. of units (000) | Average value per share US$ | Total US$ 000's |
| Mena Real Estate Company KSCC | 150 | 0.33 | 50 | - | - | - | - | - | - | 150 | 0.33 | 50 |
| Al Basha'er Fund | 12 | 7.87 | 94 | - | - | - | - | - | - | 12 | 7.87 | 94 |
| Safana Investment (RIA 1) # | 1,247 | 2.65 | 3,305 | - | - | - | - | - | - | 1,247 | 2.65 | 3,305 |
| Shaden Real Estate Investment WLL (RIA 5) # | 269 | 2.65 | 713 | - | - | - | - | - | - | 269 | 2.65 | 713 |
| | | | **4,162** | - | - | - | - | - | - | | | **4,162** |

| 31 December 2021 | Balance at 1 January 2021 | | | Movements during the year | | | | | | Balance at 31 December 2021 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | No. of units (000) | Average value per share US$ | Total US$ 000's | Investment/ (withdrawal) US$ 000's | Revaluation US$ 000's | Gross income US$ 000's | Dividends paid US$ 000's | Group's fees as an agent US$ 000's | Administration expenses US$ 000's | No. of units (000) | Average value per share US$ | Total US$ 000's |
| Mena Real Estate Company KSCC | 150 | 0.33 | 50 | - | - | - | - | - | | 150 | 0.33 | 50 |
| Al Basha'er Fund | 12 | 7.91 | 95 | (2) | - | - | - | - | - | 12 | 7.87 | 94 |
| Safana Investment (RIA 1) # | 6,254 | 2.65 | 16,573 | (13,268) | - | - | - | - | - | 1,247 | 2.65 | 3,305 |
| Shaden Real Estate Investment WLL (RIA 5) # | 3,434 | 2.65 | 9,100 | (8,387) | - | - | - | - | - | 269 | 2.65 | 713 |
| Locata Corporation Pty Ltd (RIA 6) # | 2,633 | 1.00 | 2,633 | (2,633) | - | - | - | - | - | - | - | - |
| | | | 28,451 | (24,290) | - | - | - | - | - | | | **4,162** |

*#Represents restricted investment accounts of Khaleeji Commercial Bank BSC, a consolidated subsidiary*

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND**
**for the year ended 31 December 2022** US$ 000's

| | **2022** | 2021 |
|---|---|---|
| **Sources of zakah and charity fund** | | |
| Contributions by the Group | 2,531 | 1,766 |
| Non-Sharia income (note 28) | 88 | 31 |
| **Total sources** | **2,619** | 1,797 |
| **Uses of zakah and charity fund** | | |
| Utilisation of zakah and charity fund | (1,903) | (1,970) |
| **Total uses** | **(1,903)** | (1,970) |
| **Surplus of sources over uses** | 716 | (173) |
| Undistributed zakah and charity fund at 1 January | 5,208 | 5,346 |
| **Undistributed zakah and charity fund at 31 December** (note 16) | **5,924** | 5,173 |
| **Represented by:** | | |
| Zakah payable | 753 | 954 |
| Charity fund | 5,171 | 4,219 |
| | **5,924** | 5,173 |

**for the year ended 31 December 2022** US$ 000's

## 1 REPORTING ENTITY

GFH Financial Group BSC ("the Bank") was incorporated as Gulf Finance House BSC in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136 and operates under an Islamic Wholesale Investment Banking license issued by the Central Bank of Bahrain ("CBB"). The Bank's shares are listed on the Bahrain, Kuwait, Dubai and Abu Dhabi Financial Market Stock Exchanges. The Bank's sukuk certificates are listed on London Stock Exchange.

The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board. The principal activities of the Bank include investment advisory services and investment transactions which comply with Islamic rules and principles determined by the Bank's Shari'a Supervisory Board.

The consolidated financial statements for the year comprise the results of the Bank and its subsidiaries (together referred to as "the Group"). The significant subsidiaries of the Bank which consolidated in these financial statements are:

| Investee name | Country of incorporation | Effective ownership interests as at 31 December 2022 | Activities |
|---|---|---|---|
| GFH Capital Limited | United Arab Emirates | 100% | Investment management |
| GFH Capital S.A. | Saudi Arabia | 100% | Investment management |
| Khaleeji Commercial Bank BSC ('KHCB') | Kingdom of Bahrain | 85.14% | Islamic retail bank |
| Al Areen Project companies | | 100% | Real estate development |
| GBCORP Tower Group Ltd | | 62.91% | Own & lease real estate |
| GBCORP B.S.C (c)* | | 42.91% | Islamic investment firm |
| Residential South Real Estate Development Company (RSRED) | | 100% | Real estate development |
| Harbour House Row Towers W.L.L. | | 100% | Own & lease real estate |
| Al Areen Hotels W.L.L. (Note 38) | | 100% | Hospitality management services |
| Britus International School for Special Education W.L.L | | 100% | Educational institution |
| Gulf Holding Company KSCC | State of Kuwait | 53.63% | Investment in real estate |
| SQ Topco II LLC (Note 38) | United States | 51% | Property asset management Company |
| Big Sky Asset Management LLC (Note 38) | United States | 51% | Real estate investment manager |
| Roebuck A M LLP | United Kingdom | 60% | Property asset management Company |

*The Bank has other SPE holding companies and subsidiaries, which are set up to supplement the activities of the Bank and its principal subsidiaries.*

* During the year the Bank divested 20% equity stake without losing controlling interest in the entity.

## 2 STATEMENT OF COMPLIANCE

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).

The accounting policies used in the preparation of annual audited consolidated financial statements of the Group for the year ended 31 December 2020 and 31 December 2021 were in accordance with FAS as modified by CBB (refer to the Group's audited financial statements for the year ended 31 December 2021 for the details of the COVID-19 related modifications applied). Since the CBB modification were specific to the financial year 2020 and no longer apply to both the current and comparative periods presented, the Group's financial statements for the year ended 31 December 2022 has been prepared in accordance with FAS issued by AAOIFI (without any modifications).

## 3 BASIS OF MEASUREMENT

The consolidated financial statements are prepared on the historical cost basis except for the measurement at fair value of investment securities.

The Group classifies its expenses in the consolidated income statement by the nature of expense method. The consolidated financial statements are presented in United States Dollars (US$), which is also the functional currency of the Group's operations. All financial information presented in US$ has been rounded to the nearest thousands, except when otherwise indicated.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The below paragraphs and tables describe the Group's significant lines of business and sources of revenue they are associated with.

*Activities:*

The Group's primary activities include:

a) to provide investment opportunities and manage assets on behalf of its clients as an agent,

b) to provide commercial banking services,

c) to undertake targeted development and sale of infrastructure and real estate projects for enhanced returns, and

d) to co-invest with clients and hold strategic proprietary assets as a principal. In addition, the Group also manages its treasury portfolio with the objective of earning higher returns from capital and money market opportunities.

*3 BASIS OF MEASUREMENT (continued)*

*Segments:*

To undertake the above activities, the Group has organised itself in the following operating segments units:

| | |
|---|---|
| **Investment banking** | Investment banking segment focuses on private equity and asset management activities. Private equity activities include acquisition of interests in unlisted businesses at average prices with potential for growth. The Group acts as both a principal and an intermediary by acquiring, managing and realizing investments in investment assets for institutional and high net worth clients. The asset management unit is responsible for identifying and managing investments in income yielding real estate and leased assets in the target markets.<br>Investment banking activities focuses on acquiring, managing and realizing investments to achieve and exceed benchmark returns.<br>Investment banking activities produce fee-based, activity-based and asset-based income for the Group. Assets under this segment include investment banking receivables. |
| **Commercial banking** | This includes all sharia compliant corporate banking and retail banking activities of the Group provided through the Group's subsidiary, Khaleeji Commercial Bank BSC. The subsidiary also manages its own treasury and proprietary investment book within this operating segment. |
| **Proprietary and treasury** | All common costs and activities that are undertaken at the Group level, including treasury and residual proprietary and co-investment assets, is considered as part of the Proprietary and treasury activities of the Group. |

Each of the above operating segments, except commercial banking which is a separate subsidiary, has its own dedicated team of professionals and are supported by a common placement team and support units.

The strategic business units offer different products and services and are managed separately because they require different strategies for management and resource allocation within the Group. For each of the strategic business units, the Group's Board of Directors (chief operating decision makers) review internal management reports on a quarterly basis.

The performance of each operating segment is measured based on segment results and are reviewed by the management committee and the Board of Directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing, if any is determined on an arm's length basis.

The Group classifies directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment expenses respectively. Indirect costs is allocated based on cost drivers/factors that can be identified with the segment and/ or the related activities. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures. The unallocated revenues, expenses, assets and liabilities related to entity-wide corporate activities and treasury activities at the Group level. Expenses are not allocated to the business segment.

3 *BASIS OF MEASUREMENT (continued)*

*Sources of revenue:*

The Group primarily earns its revenue from the following sources and presents its statement of income accordingly:

| **Activity/ Source** | **Products** | **Types of revenue** |
|---|---|---|
| Investment banking | Deal-by-deal offerings of private equity, income yielding asset opportunities | *Deal related income*, earned by the Group from structuring and sale of assets.<br><br>*Fee based income*, in the nature of management fees, performance fee, acquisition fee and exit fee which are contractual in nature |
| Commercial banking | Islamic Shari'ah compliant corporate, institutional and retail banking financing and cash management products and services | Financing income, fees and investment income (net of direct funding costs) |
| Proprietary investments | Proprietary investments comprise the Group's strategic investment exposure. This also includes equity -accounted investees where the Bank has significant influence | Includes dividends, gain / (loss) on sale and remeasurement of proprietary investments and share of profit / (loss) of equity accounted investees<br><br>Income from restructuring of liabilities and funding arrangements are also considered as income from proprietary investments |
| Co-investment | Represent the Group's co-investment along with its clients in the products promoted by the Group | Dividends, gain / (loss) on co-investments of the Bank |
| Sale of assets | Proprietary holdings of real estate for direct sale, development and sale, and/ or rental yields. This also includes the group's holding or participation in leisure and hospitality assets. | Development and sale income arises from development and real estate projects of the Group based on percentage of completion (POC) method.<br><br>Leasing and operating income, from rental and other ancillary income from investment in real estate and other assets. |
| Treasury operations | Represents the Bank's liquidity management operations, including its fund raising and deployment activities to earn a commercial profit margin. | Income arising from the deployment of the Bank's excess liquidity, through but not limited to short term placements with bank and financial institutions, money market instruments, capital market and other related treasury investments. |

## 4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been applied consistently to all periods presented in the consolidated financial statements and have been consistently applied by the Group.

### *(a) New standards,* amendments, and interpretations effective for annual periods beginning on or after 1 January 2022

The following new standards and amendments to standards are effective for financial years beginning on or after 1 January 2022 with an option to early adopt. However, the Group has not early adopted any of these standards.

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

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

This standard classifies Wa'ad and Khiyar arrangements into two categories as follows:
a) "ancillary Wa'ad or Khiyar" which is related to a structure of transaction carried out using other products i.e. Murabaha, Ijarah Muntahia Bittamleek, etc.; and
b) "product Wa'ad and Khiyar" which is used as a stand-alone Shariah compliant arrangement.

Further, the standard prescribes accounting for constructive obligations and constructive rights arising from the stand-alone Wa'ad and Khiyar products and accounting for Tahawwut (hedging) arrangements based on a series of Wa'ad and Khiyar contracts.

The Group did not have any significant impact on adoption this standard.

### (b) *New standards,* amendments, and interpretations issued but not yet effective

The following new standards and amendments to standards are issued but not yet effective which are relevant for the Group with an option to early adopt. However, the Group has not early adopted any of these standards.

**(i) FAS 39 Financial Reporting for Zakah**

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

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

This standard does not prescribe the method for determining the Zakah base and measuring Zakah due for a period. An institution shall refer to relevant authoritative guidance for determination of Zakah base and to measure Zakah due for the period. (for example: AAOIFI Shari'a standard 35 Zakah, regulatory requirements or guidance from Shari'a supervisory board, as applicable).

The Group is assessing the impact of adoption of this standard.

*4 SIGNIFICANT ACCOUNTING POLICIES (continued)*

**(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 2024 with an option to early adopt.

The revision of FAS 1 is in line with the modifications made to the AAOIFI conceptual framework for financial reporting.

Some of the significant revisions to the standard are as follows:
a) Revised conceptual framework is now integral part of the AAOIFI FAS's;
b) Definition of Quassi 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 statement in line with the wider market practice.

**(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 interim financial information.

**(c) Basis of consolidation**

***(i) Business combinations***

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated income statement.

The consideration transferred does not include amounts related to settlement of pre-existing relationships. Such amounts are generally recognised in the consolidated income statement. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured and settlement is accounted within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in the consolidated income statement.

***(ii) 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.

***(iii)* 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:

*4 SIGNIFICANT ACCOUNTING POLICIES (continued)*
*(c) Basis of consolidation (continued)*
*(iii) Non-controlling interests (NCI) (continued)*

- 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.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

***(iv) 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.

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

***(v) 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.

***(vi) 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.

*4 SIGNIFICANT ACCOUNTING POLICIES (continued)*
*(c) Basis of consolidation (continued)*
*(vi) Equity accounted investees (continued)*

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.

***(vii) 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.

**(d) Assets held-for-sale**

*Classification*

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use within twelve months. A subsidiary acquired exclusively with a view to resale is classified as disposal group held-for-sale and income and expense from its operations are presented as part of discontinued operation.

*Measurement*

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on re-measurement are recognised in profit or loss. Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

If the criteria for classification as held for sale are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale and shall measure the asset at the lower of its carrying amount before the asset (or disposal group) was classified as held-for-sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held-for-sale and its recoverable amount at the date of the subsequent decision not to sell.

**(e) 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 US dollars, which is the Group's functional and presentation currency.

*4 SIGNIFICANT ACCOUNTING POLICIES (continued)*
*(e) Foreign currency transactions (continued)*

*(ii) Transactions and balances*
Transactions in foreign currencies are translated into the functional currency using the spot exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at the reporting date.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items carried at their fair value, such as certain equity securities measured at fair value through equity, are included in investments fair value reserve.

*(iii) Foreign operations*
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition are translated into US$ at exchange rates at the reporting date. The income and expenses of foreign operations are translated into US$ at the exchange rates at the date of the transactions. Foreign currency differences are accumulated into foreign currency translation reserve in owners' equity, except to the extent the translation difference is allocated to NCI.

When foreign operation is disposed of in its entirety such that control is lost, cumulative amount in the translation reserve is reclassified to consolidated income statement as part of the gain or loss on disposal.

**(f) Offsetting of financing 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.

**(g) Investment securities**
Investment securities are categorised as proprietary investments, co-investments and treasury portfolio.
(refer note 3 for categorisation)

Investment securities comprise debt type and equity type instruments but exclude investment in subsidiaries and equity-accounted investees (note 4 (c) (ii) and (vi)).

***(i) Categorization and classification***
The classification and measurement approach for investments in sukuk, shares and similar instruments that reflects the business model in which such investments are managed and the underlying cash flow characteristics. Under the standard, each investment is to be categorized as either investment in:
i) equity-type instruments
ii) debt-type instruments, including:
  - *monetary debt-type instruments; and*
  - *non-monetary debt-type instruments.*
iii) other investment instruments

Unless irrevocable initial recognition choices as per the standard are exercised, an institution shall classify investments as subsequently measured at either of:
- amortised cost;
- fair value through equity (FVTE) or
- fair value through income statement (FVTIS), on the basis of both:

➢ *the Group's business model for managing the investments; and*
➢ *the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic finance contracts.*

*4 SIGNIFICANT ACCOUNTING POLICIES (continued)*
*(g) Investment securities (continued)*

***(ii) Recognition and de-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.

***(iii) 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) 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.

*4 SIGNIFICANT ACCOUNTING POLICIES (continued)*

*(g) Investment securities (continued)*

*(iv) 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.

**(h) Financing assets**

Financing assets comprise Shari'a compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha, Musharaka, Istisna and Wakala contracts. Financing assets are recognised on the date at which they are originated and are carried at their amortised cost less impairment allowances, if any.

**(i) Assets acquired for leasing**

Assets acquired for leasing (Ijarah Muntahia Bittamleek) comprise finance lease assets which are stated at cost less accumulated depreciation and any impairment in value. Under the terms of lease, the legal title of the asset passes to the lessee at the end of the lease term, provided that all lease instalments are settled. Depreciation is calculated on a straight-line basis at rates that systematically reduce the cost of the leased assets over the period of the lease. The Group assesses at each reporting date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment losses are measured as the difference between the carrying amount of the asset (including lease rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the consolidated income statement.

**(j) 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.

**(k) 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-to-day operations of the Group are not included in cash and cash equivalents.

**(l) Non-trading derivatives**

Non-trading derivatives are recognised on balance sheet at fair value. If a derivative is not held for trading, and is not designated in a qualifying hedging relationship, then all changes in its fair value are recognised immediately in profit and loss as a component of net income from other financial instruments at FVTPL.

**(m) Investment property**

Investment property comprise land plots and buildings. Investment property is property held to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Investment property is measured initially at cost, including directly attributable expenses. Subsequent to initial recognition, investment property is carried at cost less accumulated depreciation and accumulated impairment allowances (if any). Land is not depreciated, and building is depreciated over the period of 30 to 45 years.

*4 SIGNIFICANT ACCOUNTING POLICIES (continued)*

*(m) Investment property (continued)*

A property is transferred to investment property when, there is change in use, evidenced by:
end of owner-occupation, for a transfer from owner-occupied property to investment property; or
commencement of an operating ijara to another party, for a transfer from a development property to investment property.

Further, an investment property is transferred to development property when, there is a change in use, evidenced by:
commencement of own use, for a transfer from investment property to owner-occupied property;
commencement of development with a view to sale, for a transfer from investment in real estate to development property.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the period in which the property is derecognised.

**(n) Development properties**

Development properties are properties held for sale or development and sale in the ordinary course of business. Development properties are measured at the lower of cost and net realisable value.

**(o) 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:

| | |
|---|---|
| Buildings and infrastructure on lease hold | 30 – 50 years |
| Computers | 3 – 5 years |
| Furniture and fixtures | 5 – 8 years |
| Motor vehicles | 4 – 5 years |

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.

*4 SIGNIFICANT ACCOUNTING POLICIES (continued)*

**(p) Intangible assets**

*Goodwill*

Goodwill that arises on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

*Other Intangible assets*

Intangible assets acquired separately are initially measured at cost. The cost of intangible assets acquired in a business combination are their fair values as at the date of acquisition. Subsequently, intangible assets are recognised at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the consolidated income statement in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life of ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expenses category consistent with the function if intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Intangible assets with indefinite useful life consists of a license to construct and operate a cement plant in the Kingdom of Bahrain.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

**(q) Impairment of exposures subject to credit risk**

The Group recognises loss allowances for the expected credit losses "ECLs" on:

- Bank balances;
- Placements with financial institutions;
- Financing assets;
- Lease rental receivables;
- Investments in Sukuk (debt-type instruments carried at amortised cost);
- Other receivables; and
- Undrawn financing commitments and financial guarantee contracts issued.

*4 SIGNIFICANT ACCOUNTING POLICIES (continued)*

*(q) Impairment of exposures subject to credit risk (continued)*

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 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 forward-looking 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 considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be BBB- or higher per S&P.

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.

**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').

*4 SIGNIFICANT ACCOUNTING POLICIES (continued)*

*(q) Impairment of exposures subject to credit risk (continued)*

**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 credit-impaired 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.

**(r) 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.

**(s) 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.

*4 SIGNIFICANT ACCOUNTING POLICIES (continued)*

*(s) Impairment of non-financial assets (continued)*

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.

**(t) Clients' funds**

These represents amounts received from customers for investments in SPEs or project companies formed as part of its investment management activities pending transfer to these entities. These funds are usually disbursed on capital calls from these entities based on its activities and requirements and are payable on demand. Such funds held by the Group are carried at amortised cost.

**(u) Current accounts**

Balances in current (non-investment) accounts are recognised when received by the Group. The transactions are measured at the cash equivalent amount received by the Group at the time of contracting. At the end of the accounting period, the accounts are measured at their book value.

**(v) Term financing**

Term financing represents facilities from financial institutions, and financing raised through Sukuk. Term financing are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method. Financing cost, dividends and losses relating to the term financing are recognised in the consolidated income statement as finance expense. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

**(w) 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 to settle the liability, when a payment under the guarantee has become probable. The Group has issued financial guarantees to support its development projects (note 34).

**(x) Dividends**

Dividends to shareholders is recognised as liabilities in the period in which they are declared.

**(y) Share capital and reserves**

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.

*Treasury shares*

The amount of consideration paid including all directly attributable costs incurred in connection with the acquisition of the treasury shares are recognised in equity. Consideration received on sale of treasury shares is presented in the financial statements as a change in equity. No gain or loss is recognised on the Group's consolidated income statement on the sale of treasury shares.

*4 SIGNIFICANT ACCOUNTING POLICIES (continued)*
*(y) Share capital and reserves (continued)*

*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.

**(z) 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.

**(aa)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.

*4 SIGNIFICANT ACCOUNTING POLICIES (continued)*
*(aa) Revenue recognition (continued)*

**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.

**Income from Murabaha and Wakala contracts** are recognised on a time-apportioned basis over the period of the contract using the effective profit method.

Profit or losses in respect of the Bank's share in **Musharaka financing** transaction that commence and end during a single financial period is recognised in the income statement at the time of liquidation (closure of the contract). Where the Musharaka financing continues for more than one financial period, profit is recognised to the extent that such profits are being distributed during that period in accordance with profit sharing ratio as stipulated in the Musharaka agreement.

**Income from assets acquired for leasing** (Ijarah Muntahia Bittamleek) are recognised proportionately over the lease term.

**Income from sukuk** and income / expenses on placements is recognised at its effective profit rate over the term of the instrument.

***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.

**(bb) 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.

**(cc) 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.

*4 SIGNIFICANT ACCOUNTING POLICIES (continued)*

**(dd) Employees benefits**

*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.

*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.

The Group also operates a voluntary employee saving scheme under which the Group and the employee contribute monthly on a fixed percentage of salaries basis. The scheme is managed and administered by a board of trustees who are employees of the Group. The scheme is in the nature of a defined contribution scheme and contributions by the Group are recognised as an expense in the consolidated income statement when they are due.

*Share-based employee incentive scheme*
The Bank operates a share-based incentive scheme for its employees (the "Scheme") whereby employee are granted the Bank's shares as compensation on achievement of certain non-market based performance conditions and service conditions (the 'vesting conditions'). The grant date fair value of equity instruments granted to employees is recognised as an employee expense, with a corresponding increase in equity over the period in which the employees become unconditionally entitled to the share awards.

Non-vesting conditions are taken into account when estimating the fair value of the equity instrument but are not considered for the purpose of estimating the number of equity instruments that will vest. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value but are considered for the purpose of estimating the number of equity instruments that will vest. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. Amount recognised as expense are not trued-up for failure to satisfy a market condition.

**(ee) Provisions**
A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**(ff) Onerous contracts**
A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

*4 SIGNIFICANT ACCOUNTING POLICIES (continued)*

**(gg) Trade 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.

**(hh) Investment account holder protection scheme**

Funds held with the Group in unrestricted investment accounts and current accounts of its retail banking subsidiary are covered by the Deposit Protection Scheme (the Scheme) established by the Central Bank of Bahrain regulation in accordance with Resolution No (34) of 2010.

**(ii) Income tax**

The Group is exposed to taxation by virtue of operations of subsidiaries. Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be realised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Currently, the Group does not have any material current or deferred tax exposure that requires recognition in the consolidated financial statements.

**(jj) *Ijarah***

*Identifying an Ijarah*

At inception of a contract, the Group assesses whether the contract is Ijarah, or contains an Ijarah. A contract is Ijarah, or contains an Ijarah if the contract transfers the usufruct (but not control) of an identified asset for a period of time in exchange for an agreed consideration.

At the commencement date, the Group shall recognises a right-of-use (usufruct) asset and a net ijarah liability

*i) Right-of-use (usufruct) asset*

On initial recognition, the lessee measures the right-of-use asset at cost. The cost of the right-of-use asset comprises of:

- The prime cost of the right-of-use asset;
- Initial direct costs incurred by the lessee; and
- Dismantling or decommissioning costs.

The prime cost is reduced by the expected terminal value of the underlying asset. If the prime cost of the right-of-use asset is not determinable based on the underlying cost method (particularly in the case of an operating Ijarah), the prime cost at commencement date may be estimated based on the fair value of the total consideration paid/ payable (i.e. total Ijarah rentals) against the right-of-use assets, under a similar transaction.

After the commencement date, the lessee measures the right-of-use asset at cost less accumulated amortisation and impairment losses, adjusted for the effect of any Ijarah modification or reassessment.

The Group amortises the right-of-use asset from the commencement date to the end of the useful economic life of the right-of-use asset, according to a systematic basis that is reflective of the pattern of utilization of benefits from the right-of-use asset. The amortizable amount comprises of the right-of-use asset less residual value, if any.

*4 SIGNIFICANT ACCOUNTING POLICIES (continued)*

The Group determines the Ijarah term, including the contractually binding period, as well as reasonably certain optional periods, including:

- Extension periods if it is reasonably certain that the Group will exercise that option; and/ or
- Termination options if it is reasonably certain that the Bank will not exercise that option.

The Group carries out impairment assessment to determine whether the right-of-use asset is impaired and to account for any impairment losses. The impairment assessment takes into consideration the salvage value, if any. Any related commitments, including promises to purchase the underlying asset, are also considered.

*ii) Net ijarah liability*

The net ijarah liability comprises of the gross Ijarah liability, plus deferred Ijarah cost (shown as a contra-liability).

The gross Ijarah liability shall be initially recognised as the gross amount of total Ijarah rental payables for the Ijarah term. The rentals payable comprise of the following payments for the right to use the underlying asset during the Ijarah term:

- Fixed Ijarah rentals less any incentives receivable;
- Variable Ijarah rentals including supplementary rentals; and
- Payment of additional rentals, if any, for terminating the Ijarah (if the Ijarah term reflects the lessee exercising the termination option).

Advance rentals paid are netted-off with the gross Ijarah liability.

Variable Ijarah rentals are Ijarah rentals that depend on an index or rate, such as payments linked to a consumer price index, financial markets, regulatory benchmark rates, or changes in market rental rates. Supplementary rentals are rentals contingent on certain items, such as additional rental charge after provision of additional services or incurring major repair or maintenance. As of 31 December 2022, the Group did not have any contracts with variable or supplementary rentals.

After the commencement date, the Group measures the net Ijarah liability by:

- Increasing the net carrying amount to reflect return on the Ijarah liability (amortisation of deferred Ijarah cost);
- Reducing the carrying amount of the gross Ijarah liability to reflect the Ijarah rentals paid; and
- Re-measuring the carrying amount in the event of reassessment or modifications to Ijarah contract, or reflect revised Ijarah rentals.
- The deferred Ijarah cost is amortised to income over the Ijarah terms on a time proportionate basis, using the effective rate of return method.

After the commencement date, the Group recognises the following in the income statement:

- Amortisation of deferred Ijarah cost; and
- Variable Ijarah rentals (not already included in the measurement of Ijarah liability) as and when the triggering events/ conditions occur.

*Ijarah contract modifications*

After the commencement date, the Group accounts for Ijarah contract modifications as follows:

- Change in the Ijarah term: re-calculation and adjustment of the right-of-use asset, the Ijarah liability, and the deferred Ijarah cost; or

- Change in future Ijarah rentals only: re-calculation of the Ijarah liability and the deferred Ijarah cost only, without impacting the right-of- use asset.

An Ijarah modification is considered as a new Ijarah component to be accounted for as a separate Ijarah for the lessee, if the modification both additionally transfers the right to use of an identifiable underlying asset and the Ijarah rentals are increased corresponding to the additional right-of-use asset. For modifications not meeting any of the conditions stated above, the Group considers the Ijarah as a modified Ijarah as of the effective date and recognises a new Ijarah transaction. The Group recalculates the Ijarah liability, deferred Ijarah cost, and right-of-use asset, and de-recognise the existing Ijarah transaction and balances.

*4 SIGNIFICANT ACCOUNTING POLICIES (continued)*

*Expenses relating to underlying asset.*

Operational expenses relating to the underlying asset, including any expenses contractually agreed to be borne by the Group, are recognised by the Group in income statement in the period incurred. Major repair and maintenance, takaful, and other expenses incidental to ownership of underlying assets (if incurred by lessee as agent) are recorded as receivable from lessor.

*Recognition exemptions and simplified accounting for the lessee*

The Group does not to apply the requirements of Ijarah recognition and measurement of recognizing right-of-use asset and lease liability for the following:

- Short-term Ijarah; and
- Ijarah for which the underlying asset is of low value.

Short-term Ijarah exemption is applied on a whole class of underlying assets if they have similar characteristics and operational utility. However, low-value Ijarah exemption is applied on an individual asset/ Ijarah transaction, and not on group/ combination basis.

*Lessor accounting for Ijara Muntahia Bittamleek contracts Refer note 4(g)*

## 5 JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that effect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events.

*Russia-Ukraine conflict*

On 24 February 2022, a military conflict between Russia and Ukraine emerged (the "conflict"). Owing to this various countries and international bodies have imposed trade and financial sanctions on Russia and Belarus. Further, various organisations have discontinued their operations in Russia. This conflict has resulted in an economic downturn and increased volatility in commodity prices due to disruption of supply chain.

The management has carried out an assessment of its portfolio and has concluded that it does not have any direct exposures to / from the impacted countries. However, indirect impact is pervasive in the market and at this stage it is difficult to quantify the full impact of this conflict since it depends largely on the nature and duration of uncertain and unpredictable events, such as further military action, additional sanctions, and reactions to ongoing developments by global financial markets. The management will continue to closely monitor impact of this evolving situation on its portfolio to assess indirect impact, if any. During the year ended 31 December 2022, the Group's investment portfolio reduced in market value by US$ 63,312 thousand for investments carried as FVTE and US$ 48,399 thousand for investments carried as FVTPL due to volatile market movements. However, the Group does not trade in such securities and does not expect to liquidate any of it's market portfolio in short term.

### (a) Judgements

Establishing the criteria for determining whether credit risk on an exposure subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL and selection and approval of models used to measure ECL is set out in note 4(q) and note 35(a).

***(i) Classification of investments***

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments carried at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification (note 4g(i)).

*5 JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)*

*(a) Judgements (continued)*

***(ii) Special purpose entities***

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, 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 SPE's 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 intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

***(iii) Impairment of equity investments at fair value through equity – (refer to note 4 (g) (iii)***

**(b) Estimations**

***(i) Impairment of exposures subject to credit risk carried at amortised cost***

Determining inputs into ECL measurement model including incorporation of forward-looking information is set out in note 4(q) and note 35(a).

***(ii) Measurement of fair value of unquoted equity investments***

The group determines fair value of equity investments that are not quoted in active markets by using valuation techniques such as discounted cashflows, income approach and market approaches. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matter of significant judgment 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. In case where discounted cash flows models have been used to estimate fair values, the future cashflows have been estimated by the management based on information form and discussion with representatives of investee companies and based on the latest available audited and unaudited financial statements. The basis of valuation has been reviewed by the management in terms of the appropriateness of the methodology, soundness of assumptions and correctness of calculations and have been approved by the board of directors for inclusion in the consolidated financial statements.

Valuation of equity investments are measured at fair value through equity which involves judgment and is normally based on one of the following

- Valuation by independent external value for underlying properties / projects;
- Recent arms-length market transaction;
- Current fair value of another contract that is substantially similar;
- Present value of expected cash flows at current rates applicable for items with similar terms and risk characteristics; or
- Application of other valuation models.

***(iii) Impairment of investment property***

The Group conducts impairment assessment of investment property periodically using external independent property valuers to value the property. The fair value is determined based on the market value of the property using either sales comparable approach, the residual value basis, replacement cost or the market value of the property considering its current physical condition. The Group's investment properties are situated in Bahrain, UAE and Morocco. Given the dislocation in the property market and infrequent property transactions, it is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of these assets within the next financial year due to significant changes in assumptions underlying such assessments.

*5 JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)*

*(b) Estimations (continued)*

***(iv) Impairment of other non-financial assets and cash generating units***

Investment in associates and recognised goodwill are subject to an impairment based on indicators of performance and market conditions. Cash generating units include the Group's investments in certain subsidiaries and equity-accounted investees and investment property that generate cash flows that are largely independent from other assets and activities of the Group. The basis of impairment assessment for such cash generating units is described in accounting policy note 4 (s). For equity-accounted investees with indicators of impairment, the recoverable amounts is determined based on higher of fair value less costs to sell (FVLCTS); and value in use.

The recoverable amount for the equity-accounted investees was determined using a combination of income and market approaches of valuations. The objective of valuation techniques is to determine whether the recoverable amount is greater than the carrying amount.

for the year ended 31 December 2022 US$ 000's

## 6 CASH AND BANK BALANCES

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| Cash | 9,098 | 12,153 |
| Balances with banks | 714,968 | 523,735 |
| Balances with Central Bank of Bahrain: | | |
| - Current account | 65,751 | 146,026 |
| - Reserve account | 68,422 | 40,557 |
| | **858,239** | 722,471 |

The reserve account with the Central Bank of Bahrain of US$ 68,422 thousand (2021: US$ 40,557 thousand) are not available for day-to-day operational purposes. The cash and bank balances are net of ECL of US$ 11 thousand (2021: US$ 24 thousand).

## 7 TREASURY PORTFOLIO

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| **Placements with financial institutions** | 729,311 | 180,000 |
| **Derivatives** | | |
| *At fair value through income statement* | 2,675 | - |
| **Equity type investments** | | |
| *At fair value through equity* | | |
| - Quoted sukuk | 32,966 | 20,344 |
| *At fair value through income statement* | | |
| - Structured notes | 371,978 | 445,183 |
| **Debt type investments** | | |
| *At fair value through equity* | | |
| - Quoted sukuk | 846,205 | 1,635,744 |
| *At amortised cost* | | |
| - Quoted sukuk * | 2,240,354 | 860,616 |
| - Unquoted sukuk | 3,494 | 3,486 |
| *Less:* Impairment allowances (note 23) | (16,963) | (14,127) |
| | **4,210,020** | 3,131,246 |

* Short-term and medium-term facilities of US$ 1,653,875 thousand (31 December 2021: US$ 1,417,800 thousand) are secured by quoted sukuk of US$ 2,506,041 thousand (31 December 2021: US$ 2,070,315 thousand), structured notes of US$ 371,928 thousand (31 December 2021: US$ 445,183 thousand).

***Reclassification***

During the period, based on completion of the Group re-organization and on review of the overall balance sheet funding structure the Bank has reassessed its business model of managing its yielding treasury portfolio. In anticipation of the short-term and long-term liquidity needs, during the first quarter of 2022, the Bank has re-assessed the objective of its treasury portfolio wherein it would manage the underlying assets the following distinct business models:

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*7 TREASURY PORTFOLIO (continued)*
*Reclassification (continued)*

i) *Held-to-collect business model*
This portfolio includes short-term and long-term Sukuk and treasury instruments that are held to meet core liquidity requirements of high-quality liquid assets and are typically held to their contractual maturity. Assets under this model are classified and measured at amortised cost. Although management considers fair value information, it does so from a liquidity perspective, and the main focus of its review of financial information under this business model is on the credit quality and contractual returns.

ii) *Classified as fair value through P&L*
These include instruments that do not meet the contractual cash flow characteristic and include embedded option features or instruments held under an active trading portfolio for short-term profit taking. This portfolio includes structured notes and other hybrid debt-type instruments that are do not have a typical constant yield features.

iii) *Both held-to-collect and for sale business model*
The remaining fixed income treasury portfolio is held under active treasury management to collect both contract cash flows and for sale. These include Sukuk and other treasury instruments where yield is determinable. The key management personnel consider both of these activities as integral in achieving the objectives set for the Treasury business unit. This portfolio, while generating returns primarily through yield, is also held to meet expected or unexpected commitments, or to fund anticipated acquisitions or growth in other business units. Assets under this model are classified and measured at fair value through equity.

Until 31 December 2021, the Bank classified its whole Sukuk portfolio as FVTE only under a 'both held-to-collect and for sale' business model. The Board of Directors have assessed that the group re-organisation has significantly changed the liquidity management and strategy within the Bank and the above classification of the treasury portfolio best reflects the way the assets will be managed in order to meet the objectives of the new business model and the way information is provided to management. Due to the above change in the business model, the Bank has reclassified its treasury portfolio as at 1 January 2022 as follows:

| Assets subject to reclassification | Fair value through equity (FVTE) | Reversal of amounts recognized in investment fair value reserve | Reclassified to amortised cost |
|---|---|---|---|
| Sukuk | 894,194 | 41,320 | 935,514 |

**a) Investments - At fair value through income statement**

| | **2022** | 2021 |
|---|---|---|
| At 1 January | 445,183 | 369,628 |
| Additions | 52,602 | 557,681 |
| Disposals | (74,734) | (464,903) |
| Fair value changes, net | (48,398) | (17,223) |
| **At 31 December 2022** | **374,653** | 445,183 |

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*7 TREASURY PORTFOLIO (continued)*

**b) Investments - At fair value through equity**

| | **2022** | 2021 |
|---|---|---|
| At 1 January | 1,656,088 | 648,991 |
| Additions during the year | 319,192 | 1,122,544 |
| Disposals / Transfers | (123,495) | (76,033) |
| Amortization | (7,192) | (5,340) |
| Reclassification to amortized cost | (935,514) | - |
| Fair value changes | (29,908) | (34,074) |
| **At 31 December 2022** | **879,171** | 1,656,088 |

## 8 FINANCING ASSETS

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| Murabaha | 982,170 | 995,324 |
| Wakala | 239 | 239 |
| Mudharaba | 17,336 | 2,576 |
| Ijarah assets | 499,865 | 384,312 |
| | **1,499,610** | 1,382,451 |
| Less: Impairment allowances | (64,372) | (71,449) |
| | **1,435,238** | 1,311,002 |

Murabaha financing receivables are net of deferred profits of US$ 50,133 thousand (2021: US$ 46,130 thousand).

| **31 December 2022** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| Financing assets (gross) | 1,286,549 | 143,496 | 69,565 | 1,499,610 |
| Expected credit loss | (18,046) | (11,990) | (34,336) | (64,372) |
| **Financing assets (net)** | **1,268,503** | **131,506** | **35,229** | **1,435,238** |

| 31 December 2021 | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Financing assets (gross) | 1,015,953 | 251,500 | 114,998 | 1,382,451 |
| Expected credit loss | (19,995) | (7,109) | (44,345) | (71,449) |
| Financing assets (net) | 995,958 | 244,391 | 70,653 | 1,311,002 |

The movement on impairment allowances is as follows:

| **Impairment allowances** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| Balance at 1 January 2022 | 19,995 | 7,109 | 44,345 | 71,449 |
| Net transfers | 2,403 | (1,411) | (992) | - |
| Net charge for the year (note 23) | (4,245) | 6,292 | 4,888 | 6,935 |
| Write-off | - | - | (14,012) | (14,012) |
| **At 31 December 2022** | **18,153** | **11,990** | **34,229** | **64,372** |

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8 *FINANCING ASSETS (continued)*

| Impairment allowances | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Balance at 1 January 2021 | 20,841 | 6,255 | 28,914 | 56,010 |
| Net transfers | 796 | 822 | (1,618) | - |
| Net charge for the year (note 23) | (1,640) | (64) | 18,080 | 16,376 |
| Write-off | - | - | (12) | (12) |
| Disposal | (2) | 96 | (1,019) | (925) |
| At 31 December 2021 | 19,995 | 7,109 | 44,345 | 71,449 |

## 9 INVESTMENT IN REAL ESTATE

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| Investment Property | | |
| - Land | 560,627 | 529,076 |
| - Building | 152,484 | 63,758 |
| | **713,111** | 592,834 |
| Development Property | | |
| - Land | 143,488 | 592,926 |
| - Building | 430,486 | 719,838 |
| | **573,974** | 1,312,764 |
| | **1,287,085** | 1,905,598 |

(i) *Investment property*

Investment property includes land plots and buildings in GCC, Europe and North Africa. Investment property of carrying amount of US$ 39.9 million (2021: US$ 40.84 million) is pledged against Wakala facilities and Ijarah facility (note 15).

The fair value of the Group's investment property at 31 December 2022 was US$ 931,291 thousand (31 December 2021: US$ 766,848 thousand) based on a valuation carried out by an independent external property valuers who have recent experience in the location and category of the asset being valued. These are level 3 valuations in fair value hierarchy.

| | **2022** | 2021 |
|---|---|---|
| At 1 January | 592,834 | 545,072 |
| Reclassification from other assets | - | 17,338 |
| Additions during the year | 175,834 | 30,424 |
| Depreciation | (2,805) | - |
| Disposals / transfers | (52,752) | - |
| **At 31 December** | **713,111** | 592,834 |

for the year ended 31 December 2022 US$ 000's

9 *INVESTMENTS IN REAL ESTATE (continued)*

(ii) Development properties

This represent properties under development for sale.

| | **2022** | 2021 |
|---|---|---|
| At 1 January | 1,312,764 | 1,296,803 |
| Additions | 88,829 | 21,151 |
| Disposals | (827,619) | (5,190) |
| **At 31 December 2022** | **573,974** | 1,312,764 |

## 10 PROPRIETARY INVESTMENTS

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| **Equity type investments** | | |
| *At fair value through income statement (i)* | | |
| - Unquoted securities | 9,480 | 10,000 |
| | **9,480** | 10,000 |
| *At fair value through equity* | | |
| - Listed equity securities *(ii)* | - | 13 |
| - Equity type Sukuk (iv) | 836,251 | - |
| - Unquoted equity securities *(iii)* | 55,893 | 91,425 |
| | **892,144** | 91,438 |
| Equity-accounted investees *(iv)* | 103,471 | 69,003 |
| Impairment allowance | (42) | (124) |
| | **1,005,053** | 170,317 |

(i) Equity type investments – At fair value through income statement

| | **2022** | 2021 |
|---|---|---|
| At 1 January | 10,000 | 10,000 |
| Disposals | (520) | - |
| **At 31 December 2022** | **9,480** | 10,000 |

(ii) Listed equity securities at fair value through equity

| | **2022** | 2021 |
|---|---|---|
| At 1 January | 13 | 19,060 |
| Disposals | (13) | (19,047) |
| **At 31 December 2022** | **-** | 13 |

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*10 PROPRIETARY INVESTMENTS (continued)*

(iii) Unquoted equity securities fair value through equity

| | **2022** | 2021 |
|---|---|---|
| At 1 January | 91,425 | 108,998 |
| Sale during the year | - | (21,003) |
| Capital repayments during the year | (520) | (5,856) |
| Additions during the year | 6,050 | 9,286 |
| Disposal / Transfers | (41,062) | - |
| **At 31 December** | **55,893** | 91,425 |

(iv) Equity-accounted investees

Equity-accounted investees represents investments in the following material entities:

| **Name** | **Country of incorporation** | **% Holding** | | **Nature of business** |
|---|---|---|---|---|
| | | **2022** | **2021** | |
| Capital Real Estate Projects Company B.S.C. (c) | Kingdom of Bahrain | 30% | 40% | Real estate holding and development |
| Bahrain Aluminium Extrusion Company B.S.C (c) ('Balexco') | Kingdom of Bahrain | - | 17.92% | Extrusion and sale of aluminium products |
| Enshaa Development Real Estate B.S.C. (c) | Kingdom of Bahrain | 33.33% | 33.33% | Holding plot of land in Kingdom of Bahrain. |
| Infracorp B.S.C. (c) | Kingdom of Bahrain | 40.0% | - | Management of Real Estate |

| | **2022** | 2021 |
|---|---|---|
| At 1 January | 69,003 | 78,050 |
| Additions | 80,000 | - |
| Disposals | (57,437) | (6,111) |
| Share of profit / (loss) for the year, net | 11,905 | (2,936) |
| **At 31 December 2022** | **103,471** | 69,003 |

*Summarised financial information of entities that have been equity-accounted investments not adjusted for the percentage ownership held by the Group (based on most recent management accounts):*

| **Infracorp B.S.C. (c)** | **2022** | 2021 |
|---|---|---|
| Total assets | 1,687,534 | 202,396 |
| Total liabilities | 418,012 | 667 |
| Equity type sukuk | 900,000 | - |
| Total revenues | 130,360 | 3,548 |
| Total profit/ (loss) | 33,190 | (799) |

| **Other equity-accounted investees** | **2022** | 2021 |
|---|---|---|
| Total assets | 286,223 | 269,790 |
| Total liabilities | 20,647 | 43,936 |
| Total revenues | 12,097 | 100,940 |
| Total loss | (4,630) | (3,720) |

for the year ended 31 December 2022 US$ 000's

## 11 CO-INVESTMENTS

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| *At fair value through equity* | | |
| - Unquoted equity securities | 131,553 | 164,547 |
| *At fair value through income statement* | | |
| - Unquoted equity securities | 10,498 | 7,330 |
| | **142,051** | 171,877 |

| | 2022 | 2021 |
|---|---|---|
| At 1 January | 171,877 | 126,319 |
| Additions | 58,751 | 57,620 |
| Disposals | (92,195) | (12,062) |
| Fair value change | 3,618 | - |
| **At 31 December 2022** | **142,051** | 171,877 |

## 12 RECEIVABLES AND OTHER ASSETS

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Investment banking receivables | 193,923 | 148,985 |
| Receivable from equity-accounted investees | 62,000 | - |
| Financing to projects, net | 26,744 | 42,383 |
| Receivable on sale of development properties | 16,341 | 59,914 |
| Advances and deposits | 61,613 | 58,222 |
| Employee receivables | 5,067 | 18,898 |
| Profit on sukuk receivable | 18,766 | 17,273 |
| Lease rentals receivable | 6,117 | 2,175 |
| Prepayments and other receivables | 208,614 | 199,274 |
| Less: impairment allowance net (note 23) | (9,316) | (15,636) |
| | **589,869** | 531,488 |

## 13 PROPERTY AND EQUIPMENT

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Land | 86,839 | 17,958 |
| Buildings and other leased assets | 80,709 | 31,323 |
| Others including furniture, vehicles and equipment | 65,188 | 90,406 |
| | **232,736** | 139,687 |

Depreciation on property and equipment during the year was US$ thousand 3,036 (2021: US$ 2,541 thousand).

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## 14 PLACEMENTS FROM NON-FINANCIAL INSITUTIONS AND INDIVIDUALS

These comprise placements in the form of murabaha and wakala contracts with financial, non-financial institutions, and individuals part of the Group's treasury activities. This includes US$ 84.3 million (2021: US$ 84.3 million) from a non-financial entity which is currently subject to regulatory sanctions.

## 15 TERM FINANCING

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| Murabaha financing | 1,680,940 | 1,449,852 |
| Sukuk | 242,076 | 250,943 |
| Ijarah financing | 17,603 | 20,093 |
| Other borrowings | 1,579 | 29,779 |
| | **1,942,198** | 1,750,667 |

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| Current portion | 987,320 | 1,275,981 |
| Non-current portion | 954,878 | 474,686 |
| | **1,942,198** | 1,750,667 |

*Murabaha financing* comprise:
Short-term and medium-term facilities of US$ 1,653,875 thousand (31 December 2021: US$ 1,417,800 thousand) are secured by quoted sukuk of US$ 2,506,041 thousand (31 December 2021: US$ 2,070,315 thousand) and structured notes of US$ 301,853 thousand (31 December 2021: US$ 403,986 thousand).

*Sukuk*
During 2020, the Group raised US$ 500,000 thousand through issuance of unsecured sukuk certificates with a profit rate of 7.5% p.a. repayable by 2025 till date. The Group has repurchased cumulative sukuk of US$ 265,588 thousand. The outstanding sukuk also includes accrued profit of US$ 7,664 thousand.

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## 16 OTHER LIABILITIES

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| Employee related accruals | 15,544 | 18,089 |
| Board member allowances and accruals | 1,500 | 2,499 |
| Unclaimed dividends | 4,754 | 4,574 |
| Mudaraba profit accrual | 13,184 | 12,992 |
| Provision for employees' leaving indemnities | 4,125 | 3,155 |
| Zakah and Charity fund | 5,924 | 5,173 |
| Advance received from customers * | 6,648 | 70,051 |
| Accounts payable | 266,535 | 136,838 |
| Other accrued expenses and payables | 105,149 | 151,283 |
| | **423,363** | 404,654 |

* Represents amount received in advance from the customers on account of real estate assets to be delivered by the Group.

## 17 EQUITY OF INVESTMENT ACCOUNT HOLDERS (EIAH)

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| Placements and borrowings from financial institutions – Wakala | 25,458 | 231,722 |
| Mudaraba | 1,188,216 | 1,126,622 |
| | **1,213,674** | 1,358,344 |

The funds received from investment account holders have been commingled and jointly invested with the Group in the following asset classes as at 31 December:

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| Balances with banks | 274,502 | 46,368 |
| CBB reserve account | 68,422 | 40,557 |
| Placements with financial institutions | 166,130 | 70,003 |
| Debt type instruments – sukuk | 456,310 | 456,310 |
| Financing assets | 248,310 | 745,106 |
| | **1,213,674** | 1,358,344 |

As at 31 December 2022, the balance of profit equalisation reserve and investment risk reserve was Nil (2021: Nil).
The Group does not allocate non-performing assets to IAH pool. All the impairment allowances are allocated to owners' equity. Recoveries from non-performing financial assets are also not allocated to IAH accountholders. Only profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. The Group did not charge any administration expenses to investment accounts.

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*17 EQUITY OF INVESTMENT ACCOUNT HOLDERS (EIAH) (continued)*

Following is the average percentage for profit allocation between owner's equity and investment accountholders.

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | Mudarib share | IAH shares | Mudarib share | IAH shares |
| 1 month Mudharaba * | 65.01% | 34.99% | 82.97% | 17.03% |
| 3 months Mudharaba | 52.56% | 47.44% | 63.20% | 36.80% |
| 6 months Mudharaba | 52.53% | 47.47% | 58.49% | 41.51% |
| 12 months Mudharaba | 42.04% | 57.96% | 51.13% | 48.87% |
| 18 months Mudharaba | 53.58% | 46.42% | 46.85% | 53.15% |
| 24 months Mudharaba | 24.67% | 75.33% | 53.01% | 46.99% |
| 36 months Mudharaba | 38.08% | 61.92% | 43.31% | 56.69% |

* Includes savings, Al Waffer and Call Mudaraba accounts.

The investors' share of the return on jointly invested assets and distribution to investment account holders were as follows:

| | **2022** | 2021 |
|---|---|---|
| Returns from jointly invested assets | (85,200) | (65,862) |
| Banks share as Mudarib | 47,149 | 34,152 |
| **Return to investment account holders** | **(38,051)** | (31,710) |

The above returns as the Mudarib are forming part of Income from commercial banking in the statement of income. During the year, average mudarib share as a percentage of total income allocated to IAH was 45.06% (2021: 53.73%) as against the average mudarib share contractually agreed with IAH. Hence the Group sacrificed average mudarib fees of 23.50% (2021: 9.97%).

In addition to the Murabaha allocation, the Groups also provides wakala services to the investors wherein the Group's has generated a total returns from the jointly invested assets of USD 25,304 million (2021: USD 15,372 million) which is forming part of the Income from the treasury operations and the income from the propritory and co-investments in the statement of income. The returns to investment account holders are USD 21,027 million (2021: USD 10,145 million) which are included with the finance expenses in the statement of income. The difference between the returns from the invested assets and the returns to the investment account holder of USD 4,276 million (2021: USD 4,227 million) is the Group's share of return in its capacity of the wakil.

The Group does not share profits resulting from the assets funded through current accounts and other funds received on the basis other than mudarba contract and wakala contract.

The funds raised from IAH are deployed in the assets on a priority basis after setting aside certain amount in cash and placement with Banks for liquidity management purposes.

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## 18 SHARE CAPITAL

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| **Authorised:** | | |
| 9,433,962,264 shares of US$ 0.265 each (2021: 9,433,962,264 shares of US$ 0.265 each) | 2,500,000 | 2,500,000 |
| **Issued and fully paid up:** | | |
| 3,832,593,838 shares of US$ 0.265 each (2021: 3,775,990,064 shares of US$ 0.265 each) | **1,015,637** | 1,000,637 |

The movement in the share capital during the year is as follows:

| | 2022 | 2021 |
|---|---|---|
| At 1 January | 1,000,637 | 975,637 |
| Issue of bonus shares | 15,000 | 25,000 |
| **At 31 December** | **1,015,637** | 1,000,637 |

As at 31 December 2022, the Bank held 341,150,768 (31 December 2021: 213,806,890) of treasury shares. Furthermore, the bank had vested shares of 106,641,881 for US$ 29,958,453 (2021: 11,963,207).

***Additional information on shareholding pattern***

(i) The Bank has only one class of equity shares and the holders of these shares have equal voting rights.

(ii) Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

| **31 December 2022 Categories*** | **Number of shares** | **Number of Shareholders** | **% of total outstanding shares** |
|---|---|---|---|
| Less than 1% | 2,260,705,577 | 8,304 | 58.98% |
| 1% up to less than 5% | 1,023,998,191 | 14 | 26.72% |
| 5% to less than 10% | 547,890,070 | 2 | 14.3% |
| **Total** | **3,832,593,838** | **8,320** | **100%** |

| 31 December 2021 **Categories*** | **Number of shares** | **Number of Shareholders** | **% of total outstanding shares** |
|---|---|---|---|
| Less than 1% | 2,271,927,550 | 8,142 | 60% |
| 1% up to less than 5% | 1,504,062,514 | 20 | 40% |
| **Total** | **3,775,990,064** | **8,162** | **100%** |

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

***Appropriations and changes in capital structure***

Appropriations, if any, are made when approved by the shareholders.

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*18 SHARE CAPITAL (continued)*

Proposed appropriations

The Board of Directors proposes the following appropriations for 2023 subject to shareholders' and regulatory approval:

- Cash dividend of 6.0% of the paid-up share capital net of treasury shares;
- To allocate an amount US $ 1,110,045 to Zakat Fund;
- To allocate an amount equivalent to 3% of net profit attributable to shareholders of US$ 2,707,590 to charity activities and civil society organizations;
- Transfer of US$ 9,025,300 to statutory reserve; and,
- Board remuneration of US$ 1,500,000.

## 19 SHARE GRANT RESERVE

The Bank operates a share-based incentive scheme for its employees (the "Scheme") whereby employee are granted the Bank's shares as compensation on achievement of certain non-market based performance conditions and service conditions (the 'vesting conditions'). The grant date fair value of equity instruments granted to employees is recognised as an employee expense, with a corresponding increase in equity over the period in which the employees become unconditionally entitled to the share awards. During the year the Bank has recognized US$ 6,930 thousands.

## 20 OTHER INCOME

Other income includes write back of liabilities no longer required of US$ 10.31 million (2021: US$ 24.3 million) after settlement arrangements were concluded for some of the non-banking subsidiaries, recoveries of expenses from project companies of US$ Nil (2021: US$ 0.3 million) and income of non-financial subsidiaries of US$ 9.6 million (2021: US$ 26.0 million).

## 21 STAFF COST

| | **2022** | 2021 |
|---|---|---|
| Salaries and benefits | 60,232 | 55,924 |
| Social insurance and end of service benefits | 3,253 | 3,111 |
| Share-based payments | 6,930 | 4,196 |
| | **70,415** | 63,231 |

for the year ended 31 December 2022 US$ 000's

*21 STAFF COST (continued)*

As per the Group's Variable Incentive Policy, a portion of the annual performance bonus is issued in the form of share awards to its senior management employees. These awards include deferred incentives in the form of shares, share purchase plans and long-term incentive plans with different conditions. The terms of the award, including the type of plan, extent of funding, pricing and deferral period is determined for each year by the Board Nomination, Remuneration and Governance Committee of the Bank.

| **Performance year** | **Nature of award** | **Staff coverage** | **Summary of deferral and vesting conditions** |
|---|---|---|---|
| 2019 – 2022 * Awards | Employee Share Purchase Plan & Deferred Annual Bonus (DAB) | Covered persons in business and control functions who exceed total compensation thresholds as per CBB Remuneration Regulations and Bank's Variable Remuneration policy. | Shares are released rateably over the 3 year deferral period. The issue price is determined based on a defined adjustment to market price on the date of the award. No future performance conditions or service conditions associated with the DAB shares. DAB Shares are entitled for dividends, if any, but released over the deferral period. |
| 2020 – 2022 | Long term incentive plan (LTIP) share awards | Select Senior Management | Under the future performance awards structure of the Bank, an LTIP scheme was introduced where the employees are compensated in form of shares as a percentage on achievement of certain pre-determined performance conditions. The LTIP sets performance and service conditions and has a rateable vesting schedule over a period of six years. Accelerated vesting may occur on exceeding performance conditions leading to true up of share-based payment charges. The issue price is determined based on a defined adjustment to market price on the date of the award. The LTIP shares include leverage features and are entitled to dividends, if any, released along with the vested shares. |

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | No. of Shares | USD 000's | No. of Shares | USD 000's |
| Opening balance | 184,325,599 | 17,082 | 245,264,354 | 29,763 |
| Awarded during the year | 145,490,734 | 22,532 | 42,087,569 | 6,429 |
| Bonus shares | 4,461,209 | - | 6,249,484 | |
| Forfeiture and other adjustments | - | - | (1,369,114) | (9,426) |
| Transfer to employees / settlement | (130,770,332) | (10,957) | (107,906,694) | (9,684) |
| **Closing balance** | **203,507,210** | **28,657** | 184,325,599 | 17,082 |

In case of the employee share purchase plans including LTIP, the USD amounts reported in the table above represents the gross vesting charge of the respective schemes as determined under IFRS 2 – *Share-based payments* at the date of the award and not the value of the shares. The release of these shares are subject to future retention, performance and service conditions. The number of shares included in the table above refer to the total employee participation in the various plans that remain unvested and undelivered as at the reporting date.

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## 22 OTHER OPERATING EXPENSES

| | **2022** | 2021 |
|---|---|---|
| Investment advisory expenses | 18,571 | 10,860 |
| Rent | 2,925 | 2,523 |
| Professional and consultancy fees | 13,213 | 10,211 |
| Legal expenses | 2,183 | 579 |
| Depreciation | 5,841 | 2,541 |
| Expenses relating to non-banking subsidiaries | 11,570 | 22,797 |
| Other operating expenses | 23,229 | 20,788 |
| | **77,532** | 70,299 |

## 23 IMPAIRMENT ALLOWANCES

| | **2022** | 2021 |
|---|---|---|
| Bank balances | (13) | 8 |
| Treasury portfolio | 2,836 | 8,147 |
| Financing assets (note 8) | 6,935 | 16,376 |
| Co-investments (note 11) | (82) | 690 |
| Other receivables (note 12) | (6,320) | 11,428 |
| Commitments and financial guarantees | (46) | (1,068) |
| | **3,310** | 35,581 |

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## 24 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group. A significant portion of the Group's management fees are from entities over which the Group exercises influence (assets under management). Although these entities are considered related parties, 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 transactions with these entities are based on agreed terms.

The significant related party transactions during the year and balances as at year end included in these consolidated financial statements are as follows:

| | Related parties | | | | |
|---|---|---|---|---|---|
| **2022** | **Associates / Joint venture** | **Key management personnel** | **Significant shareholders / entities in which directors are interested** | **Assets under management including special purpose and other entities** | **Total** |
| **Assets** | | | | | |
| Cash and bank balances | - | - | - | 12,777 | **12,777** |
| Treasury portfolio | | | | 70,656 | **70,656** |
| Financing assets | - | 8,411 | 38,181 | 18,201 | **64,793** |
| Proprietary investment | 836,251 | - | 6,058 | - | **842,309** |
| Co investment | - | - | - | 142,665 | **142,665** |
| Receivables and other assets | 62,045 | 5,326 | 721 | 198,231 | **266,323** |
| **Liabilities** | | | | | |
| Current account | 1,918 | 183 | 2,003 | 13,973 | **18,077** |
| Placements from financial, non-financial institutions and individuals | - | 3,379 | 22,697 | 24,077 | **50,153** |
| Payables and accruals | 36,009 | 1,565 | - | 139,529 | **177,103** |
| **Equity of investment account holders** | **3,239** | **2,875** | **33,328** | **148,114** | **187,556** |

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*24 RELATED PARTY TRANSACTIONS (continued)*

| **2022** | **Related parties** **Associates / Joint venture** | **Key management personnel** | **Significant shareholders / entities in which directors are interested** | **Assets under management including special purpose and other entities** | **Total** |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Income from investment banking | - | - | - | 124,244 | **124,244** |
| Income from commercial banking | - | - | - | - | **-** |
| - *Income from financing* | - | 525 | 1,263 | - | **1,788** |
| - *Fee and other income* | - | - | - | - | **-** |
| - *Less: Return to investment account holders* | 27 | 101 | 8,631 | 11 | **8,770** |
| - *Less: Finance expense* | - | - | - | - | **-** |
| Income from proprietary and co-investments | 27,246 | - | 1,932 | 25,154 | **54,332** |
| Treasury and other income | 8 | - | - | 797 | **805** |
| | | | | | |
| **Expenses** | | | | | |
| Operating expenses | | | | | |
| Staff Cost | - | (8,116)* | - | - | **(8,116)** |
| Finance Cost | - | (6) | (3,989) | - | **(3,995)** |

***** The amount presented excluded bonus to key management personnel for 2022 as allocation has not been finalized at the date of approval of these consolidated financial statements.

| 2021 | Related parties Associates / Joint venture | Key management personnel | Significant shareholders / entities in which directors are interested | Assets under management including special purpose and other entities | Total |
|---|---|---|---|---|---|
| Assets | | | | | |
| Cash and bank balances | - | - | - | 15,196 | 15,196 |
| Treasury portfolio | - | - | 37,148 | - | 37,148 |
| Financing assets | - | 7,817 | 33,407 | 16,482 | 57,706 |
| Proprietary investment | 114,387 | - | 20,328 | 48,011 | 182,726 |
| Co investment | - | - | - | 76,794 | 76,794 |
| Receivables and other assets | 8,060 | 623 | 300 | 171,559 | 180,542 |
| | | | | | |
| Liabilities | | | | | |
| Current account | 326 | 902 | 592 | 15,427 | 17,247 |
| Placements from financial, non-financial institutions and individuals | - | 4,430 | - | - | 4,430 |
| Payables and accruals | - | 2,688 | 1,528 | 33,678 | 37,894 |
| | | | | | |
| Equity of investment account holders | 1,088 | 355 | 54,276 | 772 | 56,491 |

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*24 RELATED PARTY TRANSACTIONS (continued)*

| | Related parties | | | | |
|---|---|---|---|---|---|
| 2021 | Associates / Joint venture | Key management personnel | Significant shareholders / entities in which directors are interested | Assets under management including special purpose and other entities | Total |
| Income | | | | | |
| Income from investment banking | - | - | - | 119,389 | 119,389 |
| Income from commercial banking | | | | | |
| - *Income from financing* | - | 310 | 2,332 | - | 2,642 |
| - *Fee and other income* | (3,005) | - | - | 698 | (2,307) |
| - *Less: Return to investment account holders* | 24 | 3 | 5,111 | 13 | 5,151 |
| - *Less: Finance expense* | - | 50 | - | - | 50 |
| Income from proprietary and co-investments | 4 | 120 | 8,017 | 19,727 | 27,868 |
| Treasury and other income | - | - | (440) | 1,742 | 1,302 |
| Expenses | | | | | |
| Operating expenses | | | | | |
| - Staff Cost | - | (5,671) | - | - | (5,671) |
| - Finance Expenses | - | (1,676) | - | - | (1,676) |

**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 and its significant banking subsidiary.

During the year, there were no direct participation of directors in investments promoted by the Group.

The key management personnel compensation is as follows:

| | **2022** | 2021 |
|---|---|---|
| Board members' remuneration, fees and allowance | 2,981 | 2,455 |
| Salaries, other short-term benefits and expenses | 15,203 | 14,862 |
| Post-employment benefits | 289 | 275 |

## 25 ASSETS UNDER MANAGEMENT AND CUSTODIAL ASSETS

i. 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$ 7,845 million (31 December 2021: US$ 5,297 million). During the year, the Group had charged management fees and performance fee amounting to US$ 33,536 thousand (31 December 2021: US$ 8,083 thousand).

ii. Custodial assets comprise assets of the discretionary portfolio management ('DPM') accounts amounting to US$ 663,201 thousand, of which US$ 639,124 thousand related to the Bank's investment products.

## 26 EARNINGS PER SHARE

*Basic earnings per share*

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year.

The weighted average number of ordinary equity shares for the comparative periods presented are adjusted for the issue of shares during the year without corresponding change in resources.

| | **2022** | 2021 |
|---|---|---|
| *In thousands of shares* | | |
| Weighted average number of shares for basic and diluted earnings | **3,426,503** | 3,412,835 |

*Diluted earnings per share*

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares are considered to be dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase the loss per share.

## 27 ZAKAH AND SOCIAL RESPONSIBILITY

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed (net assets method) by the Bank's Shari'a Supervisory Board and notified to shareholders annually. The current year calculations for zakah are yet to be approved by the Group's Shari'a Supervisory Board and will be provided for in the Bank's website.

The Group discharges its social responsibilities through donations to charitable causes and social organisations.

## 28 EARNINGS PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-sharia sources. Accordingly, all non-sharia income is credited to a charity account where the Group uses these funds for charitable means. Movements in non-sharia funds are shown in the statement of sources and uses of charity funds. The Group receives interest from deposits placed with the CBB and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amount to US$ 88 thousand (2021: US$ 31 thousand).

## 29 SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board comprise four 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.

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## 30 MATURITY PROFILE

The table below shows the maturity profile of the Group's assets and unrecognised commitments on the basis of their contractual maturity. Where such contractual maturity is not available, the Group has considered expected realisation / settlement profile for assets and liabilities respectively. For undiscounted contractual maturity of financial liabilities, refer note 36.

| 31 December 2022 | Up to 3 months | 3 to 6 months | 6 months to 1 year | 1 to 3 years | Over 3 years | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and bank balances | 826,393 | 7,374 | 13,552 | 10,920 | - | 858,239 |
| Treasury portfolio | 1,291,520 | 249,557 | 447,769 | 417,228 | 1,803,946 | 4,210,020 |
| Financing assets | 156,765 | 56,091 | 164,272 | 291,676 | 766,434 | 1,435,238 |
| Real estate investment | - | - | - | - | 1,287,085 | 1,287,085 |
| Proprietary investments | - | - | - | 927,704 | 77,349 | 1,005,053 |
| Co-investments | - | 1,852 | - | 140,199 | - | 142,051 |
| Receivables and prepayments | 213,908 | 105,435 | 56,540 | 50,526 | 163,460 | 589,869 |
| Property and equipment | - | - | - | - | 232,736 | 232,736 |
| **Total assets** | **2,488,586** | **420,309** | **682,133** | **1,838,253** | **4,331,010** | **9,760,291** |
| **Liabilities** | | | | | | |
| Client's funds | 87,488 | - | 35,812 | - | - | 123,300 |
| Placements from financial institutions | 2,361,964 | 516,253 | 639,419 | 210,554 | 62,680 | 3,790,870 |
| Placements from non-financial institutions and individuals | 159,739 | 121,865 | 251,034 | 423,025 | 108,595 | 1,064,258 |
| Current account | 5,497 | 16,623 | - | 54,557 | 54,557 | 131,234 |
| Term financing | 519,046 | 192,074 | 276,200 | 649,172 | 305,706 | 1,942,198 |
| Payables and accruals | 227,764 | 116,763 | 36,390 | 42,446 | - | 423,363 |
| **Total liabilities** | **3,361,498** | **963,578** | **1,238,855** | **1,379,754** | **531,538** | **7,475,223** |
| **Equity of investment account holders** | **99,588** | **35,406** | **86,546** | **288,470** | **703,664** | **1,213,674** |
| *Off-balance sheet items* | | | | | | |
| Commitments | 56,565 | 4,098 | 48,923 | 95,664 | 234 | **205,484** |
| Restricted investment accounts | - | - | - | 4,162 | - | **4,162** |

for the year ended 31 December 2022 US$ 000's

*30 MATURITY PROFILE (continued)*

| 31 December 2021 | Up to 3 months | 3 to 6 months | 6 months to 1 year | 1 to 3 years | Over 3 years | Total |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Cash and bank balances | 704,672 | 6,772 | 9,650 | 1,377 | - | 722,471 |
| Treasury portfolio | 1,067,797 | 91,561 | 31,243 | 454,734 | 1,485,911 | 3,131,246 |
| Financing assets | 308,830 | 64,197 | 95,926 | 418,316 | 423,733 | 1,311,002 |
| Real estate investment | - | - | - | 937,463 | 968,135 | 1,905,598 |
| Proprietary investments | - | - | 53,806 | 20,434 | 96,077 | 170,317 |
| Co-investments | - | 2,676 | 23,607 | 139,535 | 6,059 | 171,877 |
| Receivables and prepayments | 149,490 | 14,283 | 109,058 | 214,392 | 44,265 | 531,488 |
| Property and equipment | - | - | - | - | 139,687 | 139,687 |
| Total assets | 2,230,789 | 179,489 | 323,290 | 2,186,251 | 3,163,867 | 8,083,686 |
| Liabilities | | | | | | |
| Client's funds | 152,925 | - | 63,837 | - | - | 216,762 |
| Placements from financial institutions | 1,158,602 | 591,674 | 415,501 | 18,814 | 93,889 | 2,278,480 |
| Placements from non-financial institutions and individuals | 208,648 | 143,993 | 237,520 | 171,883 | 11,568 | 773,612 |
| Current account | 35,801 | 13,666 | 14,841 | 16,958 | 51,780 | 133,046 |
| Term financing | 578,012 | 185,494 | 512,475 | 84,031 | 390,655 | 1,750,667 |
| Payables and accruals | 96,565 | 22,225 | 229,286 | 56,578 | - | 404,654 |
| Total liabilities | 2,230,553 | 957,052 | 1,473,460 | 348,264 | 547,892 | 5,557,221 |
| Equity of investment account holders | 237,280 | 269,297 | 377,042 | 235,597 | 239,128 | 1,358,344 |
| *Off-balance sheet items* | | | | | | |
| Commitments | 114 | 3,308 | 17,268 | 118,611 | 16,127 | 155,428 |
| Restricted investment accounts | - | - | - | 4,162 | - | 4,162 |

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## 31 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS

### (a) Industry sector

| 31 December 2022 | Banks and financial institutions | Real estate | Others | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and bank balances | 845,828 | 11,596 | 815 | 858,239 |
| Treasury portfolio | 3,134,903 | 73,182 | 1,001,935 | 4,210,020 |
| Financing Assets | 107,608 | 561,420 | 766,210 | 1,435,238 |
| Real estate investments | - | 1,287,085 | - | 1,287,085 |
| Proprietary investment | 757,834 | 229,337 | 17,882 | 1,005,053 |
| Co-investment | 130,833 | 11,218 | - | 142,051 |
| Receivables and prepayments | 139,696 | 97,951 | 352,222 | 589,869 |
| Property and equipment | 2,189 | 37,165 | 193,382 | 232,736 |
| **Total assets** | **5,118,891** | **2,308,954** | **2,332,446** | **9,760,291** |
| **Liabilities** | | | | |
| Client's funds | 119,375 | - | 3,925 | 123,300 |
| Placements from financial institutions | 3,790,870 | - | - | 3,790,870 |
| Placements from non-financial institutions and individuals | 9,821 | 1,477 | 1,052,960 | 1,064,258 |
| Customer accounts | 4,138 | 18,735 | 108,361 | 131,234 |
| Term financing | 1,926,760 | 15,438 | - | 1,942,198 |
| Payables and accruals | 240,730 | 50,054 | 132,579 | 423,363 |
| **Total liabilities** | **6,091,694** | **85,704** | **1,297,825** | **7,475,223** |
| **Equity of Investment account holders** | 272,093 | 51,262 | 890,319 | 1,213,674 |
| **Off-balance sheet items** | | | | |
| Commitments | - | 117,301 | 88,183 | **205,484** |
| Restricted investment accounts | - | 4,162 | - | **4,162** |
| Notional amount of Derivative | 58,500 | - | - | **58,500** |

for the year ended 31 December 2022 US$ 000's

*31 Concentration of assets, liabilities and equity of investment account holders (continued)*

*a Industry sector (continued)*

| 31 December 2021 | Banks and financial institutions | Real estate | Others | Total |
|---|---|---|---|---|
| Assets | | | | |
| Cash and bank balances | 709,908 | 5,691 | 6,872 | 722,471 |
| Treasury portfolio | 2,265,505 | 6,012 | 859,729 | 3,131,246 |
| Financing Assets | 124,783 | 499,559 | 686,660 | 1,311,002 |
| Real estate investments | 662,501 | 1,212,772 | 30,325 | 1,905,598 |
| Proprietary investment | - | 123,459 | 46,858 | 170,317 |
| Co-investment | - | 153,270 | 18,607 | 171,877 |
| Receivables and prepayments | 444,477 | 7,245 | 79,766 | 531,488 |
| Property and equipment | 5,770 | 23,492 | 110,425 | 139,687 |
| Total assets | 4,212,944 | 2,031,500 | 1,839,242 | 8,083,686 |
| Liabilities | | | | |
| Client's funds | 212,789 | - | 3,973 | 216,762 |
| Placements from financial institutions | 2,278,480 | - | - | 2,278,480 |
| Placements non-financial institutions and individuals | 7,163 | 790 | 765,659 | 773,612 |
| Customer accounts | 779 | 13,610 | 118,657 | 133,046 |
| Term financing | 1,706,299 | 19,919 | 24,449 | 1,750,667 |
| Payables and accruals | 135,118 | 138,440 | 131,096 | 404,654 |
| Total liabilities | 4,340,628 | 172,759 | 1,043,834 | 5,557,221 |
| Equity of Investment account holders | 220,935 | 60,469 | 1,076,940 | 1,358,344 |
| Off-balance sheet items | | | | |
| Commitments | - | 68,701 | 86,727 | 155,428 |
| Restricted investment accounts | - | 1,331 | 2,831 | 4,162 |

for the year ended 31 December 2022 US$ 000's

*31 Concentration of assets, liabilities and equity of investment account holders (continued)*

**b Geographic region**

| 31 December 2022 | GCC countries | MENA | Asia | North America | Others | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and bank balances | 691,915 | 361 | 40 | 74,484 | 91,439 | 858,239 |
| Treasury portfolio | 3,318,666 | 135,813 | - | 108,785 | 646,756 | 4,210,020 |
| Financing assets | 1,379,761 | 39,526 | - | 12 | 15,939 | 1,435,238 |
| Real estate investment | 1,037,847 | 232,284 | 7,609 | - | 9,345 | 1,287,085 |
| Proprietary investment | 993,219 | - | - | - | 11,834 | 1,005,053 |
| Co-investments | 46,780 | - | 505 | 93,028 | 1,738 | 142,051 |
| Receivables and prepayments | 550,502 | 22,387 | 3,477 | 9,873 | 3,630 | 589,869 |
| Property and equipment | 224,358 | - | - | 8,244 | 134 | 232,736 |
| **Total assets** | **8,243,048** | **430,371** | **11,631** | **294,426** | **780,815** | **9,760,291** |
| **Liabilities** | | | | | | |
| Client's funds | 119,375 | - | - | - | 3,925 | 123,300 |
| Placements from financial, | 3,790,870 | - | - | - | - | 3,790,870 |
| Placements non-financial institutions and individuals | 903,367 | 160,666 | - | 225 | - | 1,064,258 |
| Customer accounts | 131,019 | - | 215 | - | - | 131,234 |
| Financing liabilities | 773,566 | - | - | 447,647 | 720,985 | 1,942,198 |
| Payables and accruals | 257,100 | 6,010 | - | 141,637 | 18,616 | 423,363 |
| **Total liabilities** | **5,975,297** | **166,676** | **215** | **589,509** | **743,526** | **7,475,223** |
| **Equity of investment account holders** | 1,191,653 | - | 21,910 | - | 111 | 1,213,674 |
| **Off-balance sheet items** | | | | | - | |
| Commitments | 142,992 | - | - | 62,492 | - | 205,484 |
| Restricted investment accounts | 4,022 | - | - | 140 | - | 4,162 |
| Notional amount of Derivative | - | - | - | 58,500 | - | 58,500 |

Concentration by location for assets is measured based on the location of the underlying operating assets, and not based on the location of the investment (which is generally based in tax efficient jurisdictions).

for the year ended 31 December 2022 US$ 000's

31 *Concentration of assets, liabilities and equity of investment account holders (continued)*

b *Geography sector (continued)*

| 31 December 2021 | GCC countries | MENA | Asia | North America | Others | Total |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Cash and bank balances | 577,879 | 2,097 | 1,097 | 67,254 | 74,144 | 722,471 |
| Treasury portfolio | 2,583,409 | 95,093 | 100,244 | 61,575 | 290,925 | 3,131,246 |
| Financing assets | 1,295,063 | - | - | - | 15,939 | 1,311,002 |
| Real estate investment | 1,076,694 | 489,903 | 329,444 | - | 9,557 | 1,905,598 |
| Proprietary investment | 116,509 | - | - | - | 53,808 | 170,317 |
| Co-investments | 52,459 | - | 72,235 | 44,701 | 2,482 | 171,877 |
| Receivables and prepayments | 496,230 | 10,440 | 11,589 | 8,072 | 5,157 | 531,488 |
| Property and equipment | 133,854 | 5,655 | - | - | 178 | 139,687 |
| Total assets | 6,332,097 | 603,188 | 514,609 | 181,602 | 452,190 | 8,083,686 |
| Liabilities | | | | | | |
| Client's funds | 212,789 | - | - | - | 3,973 | 216,762 |
| Placements from financial institutions | 2,278,480 | - | - | - | - | 2,278,480 |
| Placements non-financial institutions and individuals | 688,673 | 84,714 | - | 225 | - | 773,612 |
| Customer accounts | 136,274 | (260) | (496) | - | (2,472) | 133,046 |
| Financing liabilities | 732,099 | - | - | 374,028 | 644,540 | 1,750,667 |
| Payables and accruals | 233,933 | 69,064 | 68,577 | 30,871 | 2,209 | 404,654 |
| Total liabilities | 4,282,248 | 153,518 | 68,081 | 405,124 | 648,250 | 5,557,221 |
| Equity of investment account holders | 1,334,623 | 1,700 | 21,907 | 3 | 111 | 1,358,344 |
| Off-balance sheet items | | | | | | |
| Commitments | 135,342 | - | - | 20,086 | - | 155,428 |
| Restricted investment accounts | 1,529 | - | - | - | 2,633 | 4,162 |

Concentration by location for assets is measured based on the location of the underlying operating assets, and not based on the location of the investment (which is generally based in tax efficient jurisdictions).

## 32 OPERATING SEGMENTS

The Group has three distinct operating segments, Real Estate Development, Investment Banking and Commercial Banking, which are the Group's strategic business units. The strategic business units offer different products and services and are managed separately because they require different strategies for management and resource allocation within the Group. For each of the strategic business units, the Group's Board of Directors (chief operating decision makers) review internal management reports on a quarterly basis.

The following summary describes the operations in each of the Group's operating reportable segments:

- **Investment Banking:** The Banking segment of the Group is focused on private equity and asset management domains. The private equity activities include acquisition of interests in unlisted or listed businesses at prices lower than anticipated values. The asset management unit is responsible for identifying and managing investments in yielding real estate in the target markets of the GCC. The investment banking activities focuses on providing structuring capabilities in Islamic asset-backed and equity capital markets, Islamic financial advisory and mid-sized mergers and acquisition transactions.

- **Commercial Banking:** These include commercial and corporate banking, retail banking, wealth management, structured investment products and project financing facilities of the Group's commercial banking subsidiary.

- **Proprietary and treasury -** All common costs and activities treasury and residual investment assets, excluding those that are carried independently by the reportable segments which are included within the respective segment, are considered as part of the proprietary and treasury activities of the Group.

The performance of each operating segment is measured based on segment results and are reviewed by the management committee and the Board of Directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing, if any is determined on an arm's length basis.

The Group classifies directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment expenses respectively. Indirect costs is allocated based on cost drivers/factors that can be identified with the segment and/ or the related activities. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures. The unallocated revenues, expenses, assets and liabilities related to entity-wide corporate activities and treasury activities at the Group level. Segment revenue and expenses were net-off inter segment revenue and expenses.

The Group has primary operations in Bahrain and the Group does not have any significant independent overseas branches/divisions in the banking business. The geographic concentration of assets and liabilities is disclosed in note 32 (b) to the consolidated financial statements.

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*32 OPERATING SEGMENTS (continued)*

Information regarding the results of each reportable segment is included below:

| | Investment banking | Commercial banking | Proprietary and Treasury | Total |
|---|---|---|---|---|
| **31 December 2022** | | | | |
| Segment revenue | 120,503 | 78,972 | 242,195 | **441,670** |
| Segment expenses (including impairment allowances) | (69,675) | (40,275) | (234,013) | **(343,963)** |
| Segment result | 50,828 | 38,697 | 8,182 | **97,707** |
| Segment assets | 201,828 | 3,785,535 | 5,772,928 | **9,760,291** |
| Segment liabilities | 171,359 | 1,761,879 | 5,541,985 | **7,475,223** |
| Equity of investment account holders | - | 1,189,016 | 24,658 | **1,213,674** |
| *Other segment information* | | | | |
| Impairment allowance | - | 4,770 | (1,460) | **3,310** |
| Equity accounted investees | - | 5,303 | 98,168 | **103,471** |
| Commitments | 55,485 | 142,992 | 7,007 | **205,484** |

Net of intercompany eliminations.

for the year ended 31 December 2022 US$ 000's

*32 OPERATING SEGMENTS (continued)*

| | Investment banking | Commercial banking | Proprietary and Treasury | Total |
|---|---|---|---|---|
| 31 December 2021 | | | | |
| Segment revenue | 110,387 | 71,825 | 216,536 | 398,748 |
| Segment expenses (including impairment allowances) | (73,943) | (43,144) | (189,044) | (306,131) |
| Segment result | 36,444 | 28,681 | 27,492 | 92,617 |
| Segment assets | 151,814 | 3,095,984 | 4,835,888 | 8,083,686 |
| Segment liabilities | 70,712 | 1,228,774 | 4,257,735 | 5,557,221 |
| Equity of investment account holders | - | 1,126,622 | 231,722 | 1,358,344 |
| *Other segment information* | | | | |
| Impairment allowance | 15,260 | 12,693 | 7,628 | 35,581 |
| Equity accounted investees | 18,339 | 44,900 | 5,764 | 69,003 |
| Commitments | - | 135,342 | 20,086 | 155,428 |

## 33 FAIR VALUE OF FINANCIAL INSTRUMENTS

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, investors' fund, 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 fair value of quoted Sukuk carried at amortised cost (net of impairment allowances) of USD 2,240,360 thousand (31 December 2021: USD 860,616 thousand) is USD 2,198,848 thousand as at 31 December 2022 (31 December 2021: USD 883,618 thousand). There are no material changes in the fair values of the Sukuk's carried at amortised cost subsequent to the reporting date until the date of signing the condensed consolidated interim financial information for the period ended 31 December 2022.

***Fair value hierarchy***

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: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e.as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

*33 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)*

*b) FAIR VALUE HIERARCHY (continued)*

| **31 December 2022** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | US$ 000's | US$ 000's | US$ 000's | US$ 000's- |
| *(i) Proprietary investments* | | | | |
| Investment securities carried at fair value through: | | | | |
| - income statement | 9,480 | - | - | **9,480** |
| - equity | 836,251 | - | 55,893 | **892,144** |
| | **845,731** | **-** | **55,893** | **901,624** |
| *(ii) Treasury portfolio* | | | | |
| Investment securities carried at fair value through: | | | | |
| - income statement | - | 374,653 | - | **374,653** |
| - equity | 879,171 | - | - | **879,171** |
| | **879,171** | **374,653** | **-** | **1,253,824** |
| iii) *Co-investments* | | | | |
| Investment securities carried at fair value through equity | | | 131,553 | 131,553 |
| Investment securities carried at fair value through income statement | | | 10,498 | 10,498 |
| | | | **142,051** | **142,051** |
| | **1,724,902** | **374,653** | **197,944** | **2,297,499** |

| 31 December 2021 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | US$ 000's | US$ 000's | US$ 000's | US$ 000's- |
| *(iii) Proprietary investments* | | | | |
| Investment securities carried at fair value through: | | | | |
| - income statement | - | - | - | - |
| - equity | 13 | - | 91,425 | 91,438 |
| | 13 | - | 91,425 | 91,438 |
| *(iv) Treasury portfolio* | | | | |
| Investment securities carried at fair value through: | | | | |
| - income statement | - | 445,183 | - | 445,183 |
| - equity | 1,656,088 | - | - | 1,656,088 |
| | 1,656,088 | 445,183 | - | 2,101,271 |
| iii) *Co-investments* | | | | |
| Investment securities carried at fair value through equity | - | - | 164,547 | 164,547 |
| Investment securities carried at fair value through income statement | - | - | 7,330 | 7,330 |
| | - | - | 171,877 | 171,877 |
| | 1,656,101 | 445,183 | 263,302 | 2,364,586 |

for the year ended 31 December 2022 US$ 000's

*33 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)*

The table below shows the reconciliation of movements in value of investments measured using Level 3 inputs:

| | **2022** | 2021 |
|---|---|---|
| At 1 January | 263,302 | 390,567 |
| Total gains / (losses) in income statement | - | (17,223) |
| Transfer from Level 2 | - | (155,250) |
| Disposals at carrying value | (54,521) | (27,531) |
| Purchases | 37,561 | 69,129 |
| Fair value changes during the year | (48,398) | 3,610 |
| **At 31 December** | **197,944** | **263,302** |

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

| **Valuation technique used** | **Key unobservable inputs** | **Fair value at 31 December 2022 US$ '000** | **Reasonable possible shift +/- (in average input)** | **Increase / (decrease) in valuation** |
|---|---|---|---|---|
| Market multiples approach | Price to book | 5,609 | +/- 5% | 280 / (280) |
| Market multiples approach | Enterprise value to EBITDA | 6,151 | +/- 5% | 308 / (308) |
| Market multiples approach | Capitalised Earnings Method | 2,814 | +/- 5% | 141 / (141) |
| Market multiples approach | Comparable Companies trading Multiple and Discounted Cashflows | 16,505 | +/- 5% | 825 / (825) |
| Discounted cash flow | Terminal growth rate | 15,003 | +/- 5% | 750 / (750) |
| Discounted cash flow | Weighted average cost of capital | 69,085 | +/- 5% | 3,454 / (3,454) |
| Adjusted Net Asset Value | | 82,777 | +/- 5% | 4,139 / (4,139) |
| | | **197,944** | | |

for the year ended 31 December 2022 US$ 000's

## 34 COMMITMENTS AND CONTINGENCIES

The commitments contracted in the normal course of business of the Group are as follows:

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| Undrawn commitments to extend finance | 100,422 | 95,347 |
| Financial guarantees | 49,044 | 39,995 |
| Capital commitments for infrastructure development projects | 55,485 | 16,171 |
| Commitment to lend | 533 | 3,915 |
| | **205,484** | 155,428 |

*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 projects promoted by the Bank in the past and with certain transactions. 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.

## 35 FINANCIAL RISK MANAGEMENT

**Overview**
Financial assets of the Group comprise bank balances, placements with financial and other institutions, investment securities and other receivable balances. Financial liabilities of the Group comprise investors' funds, placements from financial and other institutions, term financing and other payable balances. Accounting policies for financial assets and liabilities are set out in note 4.

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risks; and
- operational risk

This note presents information about the Group's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The material subsidiaries consolidated in these financial statements have independent risk management frameworks which is monitored by the respective Board of Directors of the subsidiaries. Accordingly, such risk management policies, procedures and practices are not included in these consolidated financial statements.

***Risk management framework***
The key element of our risk management philosophy is for the Risk Management Department ('RMD') to provide independent monitoring and control while working closely with the business units which ultimately own the risks. The Head of Risk Management reports to the Board Audit and Risk Committee.

*35 FINANCIAL RISK MANAGEMENT (continued)*

The Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place. The Board has delegated its authority to the Board Audit and Risk Committee (ARC), which is responsible for implementing risk management policies, guidelines and limits and ensuring that monitoring processes are in place. The RMD, together with the Internal Audit and Compliance Departments, provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

The RMD submits a quarterly Risk Overview Report along with a detailed Liquidity Risk Report to the Board of Directors. The Risk Overview Report describes the potential issues for a wide range of risk factors and classifies the risk factors from low to high. The Liquidity Risk Report measure the Group's liquidity risk profile against policy guidelines and regulatory benchmarks. An additional report is prepared by the respective investment units that give updated status and impairment assessment of each investment, a description of significant developments on projects or issues as well as an update on the strategy and exit plan for each project.

**a) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's, placements with financial institutions, financing assets and other receivables from project companies. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country, sector risk and sector concentration risk, related party exposure, etc.). The uncertainties due to COVID-19 and resultant economic volatility has impacted the Group's financing operations.

The Group had updated its inputs and assumptions for computation of ECL (refer note 4 p).

***Management of investment and credit risk***

The Board of Directors has delegated responsibility for the management of credit risk to its Board Investment Committee (BIC). This committee establishes operating guidelines and reviews and endorses the Management Investment and Credit Committee recommendations for investment strategies, products and services. Its actions are in accordance with the investment policies adopted by the Board of Directors.

The RMD is responsible for oversight of the Group's credit risk, including:

- Ensuring that the Group has in place investment and credit policies, covering credit assessment, risk reporting, documentary and legal procedures, whilst the Compliance Department is responsible for ensuring compliance with regulatory and statutory requirements.
- Overseeing the establishment of the authorisation structure for the approval and renewal of investment and credit facilities. Authorisation limits are governed by the Board approved Delegated Authority Limits (DAL) Matrix.
- Reviewing and assessing credit risk. Risk Management department assesses all investment and credit exposures in excess of designated limits, prior to investments / facilities being committed. Renewals and reviews of investments / facilities are subject to the same review process.

*35 FINANCIAL RISK MANAGEMENT (continued)*

*a) Credit risk (continued)*

- Ongoing review of credit exposures. The credit review of the commercial banking exposure is managed and governed by the Board of Directors of KHCB and is consistent with the practices appropriate for retail banks. The risk assessment approach is used by the Parent Bank in determining where impairment provisions may be required against specific investment / credit exposures at its board. The current risk assessment process classifies credit exposures into two broad categories "Unimpaired" and "Impaired", reflecting risk of default and the availability of collateral or other credit risk mitigation. Risk is assessed on an individual basis for each investment / receivable and is reviewed at least once a year. The Group does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Risk profile of exposures are subject to regular reviews.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of investment / credit risk.

The Risk Management Department works alongside the Investment Department at all stages of the deal cycle, from pre-investment due diligence to exit, and provides an independent review of every transaction. A fair evaluation of investments takes place periodically with inputs from the Investment department. Quarterly updates of investments are presented to the Board of Directors or their respective committees. Regular audits of business units and Group credit processes are undertaken by Internal Audit.

for the year ended 31 December 2022 US$ 000's

*35 FINANCIAL RISK MANAGEMENT (continued)*

*a) Credit risk (continued)*

**Exposures subject to credit risk**

| 31 December 2022 | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Balances with banks and placements with financial institutions** | | | | |
| Grade 1 -6 Low-Fair Risk | 1,587,198 | 361 | - | 1,587,559 |
| | - | - | - | - |
| Gross carrying amount | 1,587,198 | 361 | - | 1,587,559 |
| Less expected credit losses | 27 | 2 | - | 29 |
| **Net carrying amount** | **1,587,171** | **359** | **-** | **1,587,530** |
| **Financing facilities** | | | | |
| Grade 8 -10 Impaired | - | - | 51,756 | 51,756 |
| Past due but not impaired | | | | |
| *Grade 1-6 Low-Fair Risk* | 175,377 | 69,175 | - | 244,552 |
| *Grade 7 Watch list* | - | 25,316 | - | 25,316 |
| Past due comprises: | | | | |
| Up to 30 days | 66,257 | 49,679 | - | 115,936 |
| 30-60 days | 20,446 | 2,645 | - | 23,091 |
| 60-90 days | 88,674 | 42,167 | - | 130,841 |
| Neither past due nor impaired | | | | |
| *Grade 1-6 Low-Fair Risk* | 658,098 | 12,958 | - | 671,056 |
| *Grade 7 Watch list* | 213 | 6,851 | - | 7,064 |
| Gross carrying amount | 833,688 | 114,300 | 51,756 | 999,744 |
| Less expected credit losses | 15,842 | 10,155 | 25,663 | 51,660 |
| **Net carrying amount** | **817,846** | **104,145** | **26,093** | **948,084** |
| **Assets acquired for leasing** | | | | |
| *Grade 8-10 impaired* | - | - | 17,809 | 17,809 |
| Past due but not impaired | | | | |
| *Grade 1-6 Low-Fair Risk* | 78,790 | 4,236 | - | 83,026 |
| *Grade 7 Watch list* | 194 | 12,003 | - | 12,197 |
| Past due comprises: | | | | |
| Up to 30 days | 39,854 | 738 | - | 40,592 |
| 30-60 days | 5,206 | 5,785 | - | 10,991 |
| 60-90 days | 33,926 | 9,716 | - | 43,642 |
| Neither past due nor impaired | | | | |
| *Grade 1-6 Low-Fair Risk* | 344,899 | 26,435 | - | 371,334 |
| *Grade 7 Watch list* | - | 15,497 | - | 15,497 |

**for the year ended 31 December 2022** US$ 000's

*35 FINANCIAL RISK MANAGEMENT (continued)*

*a) Credit risk (continued)*

| **31 December 2022** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| Gross carrying amount | 423,885 | 58,171 | 17,809 | 499,865 |
| Less expected credit losses | 2,205 | 2,655 | 7,851 | 12,711 |
| **Net carrying amount** | **421,680** | **55,516** | **9,958** | **487,154** |
| **Investment in Sukuk** | | | | |
| Grade 8 -10 Impaired | - | - | 3,496 | 3,496 |
| Grade 1-6 Low-Fair Risk | 2,930,803 | 156,004 | - | 3,086,807 |
| Gross carrying amount | 2,930,803 | 156,004 | 3,496 | 3,090,303 |
| Less: expected credit losses | 4,940 | 8,796 | 3,496 | 17,232 |
| **Net carrying amount** | **2,925,863** | **147,208** | **-** | **3,073,071** |
| **Commitments and financial guarantees** | | | | |
| *Grade 8 -10 Impaired* | | | | |
| *Grade 1-6 Low-Fair Risk* | 204,189 | 939 | 16 | 205,144 |
| *Grade 7 Watch list* | - | 342 | - | 342 |
| Gross carrying amount (note 35) | 204,189 | 1,281 | 16 | 205,486 |
| Less: expected credit losses | - | 3 | - | 3 |
| **Net carrying amount** | **204,189** | **1,278** | **16** | **205,483** |
| **Total net carrying amount** | **5,956,746** | **308,508** | **36,067** | **6,301,321** |

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*35 FINANCIAL RISK MANAGEMENT (continued)*

*a) Credit risk (continued)*

| 31 December 2021 | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Balances with banks and placements with financial institutions | | | | |
| Grade 1 -6 Low-Fair Risk | 902,427 | - | - | 902,427 |
| Gross carrying amount | 902,427 | - | - | 902,427 |
| Less expected credit losses | | - | - | - |
| Net carrying amount | 902,427 | - | - | 902,427 |
| Financing facilities | | | | |
| Grade 8 -10 Impaired | - | - | 97,592 | 97,592 |
| Past due but not impaired | | | | |
| *Grade 1-6 Low-Fair Risk* | 16,618 | 19,313 | - | 35,931 |
| *Grade 7 Watch list* | 19 | 7,536 | - | 7,555 |
| Past due comprises: | | | | |
| Up to 30 days | 15,311 | 26,491 | - | 41,802 |
| 30-60 days | 281 | - | - | 281 |
| 60-90 days | 1,045 | 358 | - | 1,403 |
| Neither past due nor impaired | | | | |
| *Grade 1-6 Low-Fair Risk* | 686,667 | 66,544 | - | 753,211 |
| *Grade 7 Watch list* | 5,305 | 64,538 | - | 69,843 |
| Gross carrying amount | 708,609 | 157,931 | 97,592 | 964,132 |
| Less expected credit losses | 19,246 | 4,645 | 33,467 | 57,358 |
| Net carrying amount | 689,363 | 153,286 | 64,125 | 906,774 |
| Assets acquired for leasing | | | | |
| *Grade 8-10 impaired* | - | - | 33,984 | 33,984 |
| Past due but not impaired | | | | |
| *Grade 1-6 Low-Fair Risk* | 16,249 | - | - | 16,249 |
| *Grade 7 Watch list* | 732 | 745 | - | 1,477 |
| Past due comprises: | | | | |
| Up to 30 days | 8,222 | - | - | 8,222 |
| 30-60 days | 1,902 | 64 | - | 1,966 |
| 60-90 days | 6,857 | 681 | - | 7,538 |
| Neither past due nor impaired | | | | |
| *Grade 1-6 Low-Fair Risk* | 273,124 | 65,268 | - | 338,392 |
| *Grade 7 Watch list* | 650 | 27,565 | - | 28,215 |

**for the year ended 31 December 2022** US$ 000's

*35 FINANCIAL RISK MANAGEMENT (continued)*

*a) Credit risk (continued)*

| 31 December 2021 | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Gross carrying amount | 290,755 | 93,578 | 33,984 | 418,317 |
| Less expected credit losses | 643 | 2,464 | 10,984 | 14,091 |
| Net carrying amount | 290,112 | 91,114 | 23,000 | 404,226 |
| | | | | |
| Investment in Sukuk | | | | |
| Grade 8 -10 Impaired | - | - | 3,496 | 3,496 |
| Grade 1-6 Low-Fair Risk | 2,449,638 | 67,011 | - | 2,516,649 |
| Gross carrying amount | 2,449,638 | 67,011 | 3,496 | 2,520,145 |
| Less: expected credit losses | 7,183 | 3,571 | 3,496 | 14,250 |
| Net carrying amount | 2,442,455 | 63,440 | - | 2,505,895 |
| | | | | |
| Commitments and financial guarantees | | | | |
| *Grade 8 -10 Impaired* | - | - | 16 | 16 |
| *Grade 1-6 Low-Fair Risk* | 138,887 | 16,501 | - | 155,388 |
| *Grade 7 Watch list* | - | 24 | - | 24 |
| Gross carrying amount (note 35) | 138,887 | 16,525 | 16 | 155,428 |
| Less: expected credit losses | - | - | - | - |
| Net carrying amount | 138,887 | 16,525 | 16 | 155,428 |
| | | | | |
| Total net carrying amount | 3,773,881 | 171,079 | 23,016 | 3,967,976 |

***Significant increase in credit risk***

When determining whether the risk of default on an exposure subject to credit risk has increased significantly since initial recognition, the Bank 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 Bank's historical experience and expert credit assessment and including forward-looking information.

In determining whether credit risk has increased significantly since initial recognition, the following criteria are considered:

- Downgrade in risk rating according to the approved ECL policy;
- Facilities restructured during previous twelve months;
- Qualitative indicators; and
- Facilities overdue by 30 days as at the reporting date subject to rebuttal in deserving circumstances.

***Credit risk grades***

The Group allocates each exposure to credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. Exposers are rated 1 to 10 with 1 to being good and 7 being watch list and 8, 9 and 10 default grades. The monitoring typically involves use of the following data.

*35 FINANCIAL RISK MANAGEMENT (continued)*

**Corporate exposures**

- Information obtained during periodic review of customer files- e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes
- Data from credit reference agencies. press articles, changes in external credit ratings
- Quoted bond and credit default swap (CDS) prices for the borrower where available
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

***Retail exposures***

- Internally collected data on customer behaviour -e.g. utilisation of credit card facilities
- Affordability metrics
- External data from credit reference agencies including industry-standard credit scores

***All exposures***

- Payment record this includes overdue status as well as a range of variables about payment ratios
- Utilisation of the granted limit
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions

***Generating the term structure of PD***

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark profit rates and oil price. For exposures to specific industries and/or regions. The analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Group Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

***Determining whether credit risk has increased significantly.***

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

Qualitative indicators, including different criteria used for different portfolios credit cards, commercial real estate etc.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. For the purpose of calculating ECL for the year ended 31 December 2021, the Bank has applied the backstop of 74 days as against 30 days, in line with the CBB concessionary measures.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

***Definition of default***

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);
- the borrower is more than 90 days past due on any material obligation to the Group; or
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligation.

In assessing whether the borrower is in default, the Group considers qualitative and quantitative indicators. The definition of default aligns with that applied by the Group for regulatory capital purposes.

***Incorporation of forward-looking information***

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Group Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information. The Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2022 included the key indicators for the selected countries such as the unemployment rates, profit rates and the GDP growth.

***Modified exposures subject to credit risk***

The contractual terms of an exposure subject to credit risk may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates financing to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, forbearance of financing assets is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default (refer note 4). A customer needs to demonstrate consistently good payment behaviour over a period of time (12 months) before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

***Measurement of ECLs***

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured 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). ECLs are discounted at the effective profit rate of the exposure subject to credit risk.

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For financing assets secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations.

The following tables show reconciliations from the opening to the closing balance of the loss allowance: 12-month ECL, lifetime ECL and credit-impaired.

for the year ended 31 December 2022 US$ 000's

*35 FINANCIAL RISK MANAGEMENT (continued)*

| **2022** | 12month ECL (Stage1) | Lifetime ECL not credit impaired (Stage2) | Lifetime ECL Credit impaired (Stage3) | **Total 2021** |
|---|---|---|---|---|
| Balance at 1 January | 27,656 | 10,632 | 63,297 | 101,585 |
| Transfer to 12-month ECL | 3,128 | (2,056) | (1,072) | - |
| Transfer to lifetime ECL non-credit-impaired | 6,417 | 1,738 | (8,155) | - |
| Transfer to lifetime ECL credit-impaired | (149) | (34) | 183 | - |
| Write-off | - | - | (14,012) | (14,012) |
| Charge for the period | (3,809) | 10,505 | (3,386) | 3,310 |
| **Balance at 31 December** | **33,243** | **20,785** | **36,855** | **90,883** |

Break down of ECL by category of assets in the consolidated statement of financial position and off-balance sheet commitments:

| **2022** | **11** month ECL (Stage 1) | Lifetime ECL not credit impaired (Stage 2) | Lifetime ECL credit impaired (Stage 3) | **Total 2021** |
|---|---|---|---|---|
| Balances with banks | 11 | 2 | | 13 |
| Treasury portfolio | 5,482 | 8,796 | 2,684 | 16,962 |
| Financing assets | 18,130 | 11,911 | 34,332 | 64,373 |
| Other financial receivables | 9,240 | 76 | - | 9,316 |
| Investment securities | 42 | - | - | 42 |
| Financing commitments and financial guarantees | 338 | - | (161) | 177 |
| **Balance at 31 December 2022** | **33,243** | **20,785** | **36,855** | **90,883** |

| 2021 | 12month ECL (Stage1) | Lifetime ECL not credit impaired (Stage2) | Lifetime ECL Credit impaired (Stage3) | Total 2021 |
|---|---|---|---|---|
| Balance at 1 January | 22,344 | 6,271 | 42,200 | 70,815 |
| Transfer to 12-month ECL | 3,512 | (1,772) | (1,740) | - |
| Transfer to lifetime ECL non-credit-impaired | (3,029) | 3,928 | (899) | - |
| Transfer to lifetime ECL credit-impaired | (435) | (512) | 947 | - |
| Write-off | - | - | (4,811) | (4,811) |
| Charge for the period | 5,264 | 2,717 | 27,600 | 35,581 |
| Balance at 31 December | 27,656 | 10,632 | 63,297 | 101,585 |

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35 FINANCIAL RISK MANAGEMENT (continued)

| 2021 | 12 month ECL (Stage 1) | Lifetime ECL not credit impaired (Stage 2) | Lifetime ECL credit impaired (Stage 3) | Total 2021 |
|---|---|---|---|---|
| Balances with banks | 24 | - | - | 24 |
| Treasury portfolio | 7,232 | 3,523 | 3,496 | 14,251 |
| Financing assets | 19,886 | 7,109 | 44,454 | 71,449 |
| Other financial receivables | 305 | - | 15,329 | 15,634 |
| Financing commitments and financial guarantees | 209 | - | 18 | 227 |
| Balance at 31 December | 27,656 | 10,632 | 63,297 | 101,585 |

Break down of ECL by category of assets in the consolidated statement of financial position and off-balance sheet commitments:

***Renegotiated facilities***

During the year, facilities of US$ 6,788 thousand (2021: US$ 50,942 thousand) were renegotiated, out of which US$ 2,440 thousand (2021: US$ 47,936 thousand) are classified as neither past due nor impaired as of 31 December 2022. The renegotiated terms usually require settlement of profits accrued till date on the facility and/or part payment of the principal and/or obtaining of additional collateral coverage. The renegotiated facilities are subject to revised credit assessments and independent review by the RMD. Of the total past due facilities of US$ 387,623 thousand (2021: US$ 108,488 thousand) only instalments of US$ 61,623 thousand (2021: US$ 48,560 thousand) are past due as at 31 December 2022.

***Allowances for impairment***

The Group makes provisions for impairment on individual assets classified under grades 8,9 and 10. This is done on the basis of the present value of projected future cash flows from the assets themselves and consideration of the value of the collateral securities available. On a collective basis, the Bank has provided for impairment losses based on management's judgment of the extent of losses incurred but not identified based on the current economic and credit conditions.

***Non-accrual basis***

The Group classifies financing facility/Sukuk as non-accrual status, if the facility/Sukuk is past due greater than 90 days or there is reasonable doubt about the collectability of the receivable amount. The profits on such facilities are not recognized in the income statement until there are repayments from the borrower or the exposure is upgraded to regular status.

***Write-off policy***

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. During the year, the Group has written off financing facilities amounting to US$ 14,012 thousand (2021: US$ 12 thousand) which were fully impaired. The Group has recovered US$ 4,796 thousand from a financing facility written off in previous years (2021: US$ 1,918 thousand).

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*35 FINANCIAL RISK MANAGEMENT (continued)*

***Collaterals***

The Group holds collateral against financing assets and receivables from assets acquired for leasing in the form of mortgage/ pledge over property, listed securities, other assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. Collateral generally is not held against exposure to other banks and financial institutions. An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below. This includes the value of financial guarantees from banks, but not corporate and personal guarantees as the values thereof are not readily quantifiable. The collateral values considered for disclosure are restricted to the extent of the outstanding exposures.

| | **31 December 2022** | | | 31 December 2021 | | |
|---|---|---|---|---|---|---|
| | **Financing assets** | **Assets acquired for leasing (including lease rentals receivable)** | **Total** | Financing assets | Assets acquired for leasing (including lease rentals receivable) | Total |
| Against impaired | | | | | | |
| Property | 47,292 | 50,594 | **97,886** | 47,584 | 34,241 | 81,825 |
| Other | 5,987 | | **5,987** | 3,249 | - | 3,249 |
| Against past due but not impaired | | | | | | |
| Property | 81,939 | 37,589 | **119,528** | 65,342 | 65,605 | 130,947 |
| Other | 1,053 | | **1,053** | 1,756 | - | 1,756 |
| Against neither past due nor impaired | | | | | | |
| Property | 1,038,080 | 804,483 | **1,842,563** | 393,867 | 304,204 | 698,071 |
| Other | 117,048 | | **117,048** | 48,475 | - | 48,475 |
| **Total** | **1,291,399** | **892,666** | **2,184,065** | 560,273 | 404,050 | 964,323 |

The average collateral coverage ratio on secured facilities is 149.71% as at 31 December 2022 (31 December 2021: 148.99%).

**Concentration risk**

The geographical and industry wise distribution of assets and liabilities are set out in notes 31 (a) and (b).

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 and constantly monitoring geographic and industry wise concentration limits.

for the year ended 31 December 2022 US$ 000's

An analysis of concentrations of credit risk of financing assets of the Group's business at the reporting date is shown below:

| **Concentration by Sector** | **31 December 2022** | | | 31 December 2021 | | |
|---|---|---|---|---|---|---|
| | **Financing assets** | **Assets acquired for leasing** | **Total** | Financing assets | Assets acquired for leasing | Total |
| Banking and finance | 9,247 | | 9,247 | 12,156 | - | 12,156 |
| Real estate | 292,944 | 415,849 | 708,793 | 235,845 | 340,058 | 575,903 |
| Construction | 138,886 | - | 138,886 | 143,714 | - | 143,714 |
| Trading | 133,706 | - | 133,706 | 136,464 | - | 136,464 |
| Manufacturing | 144,143 | - | 144,143 | 35,923 | - | 35,923 |
| Others | 229,158 | 71,305 | 300,463 | 342,672 | 64,170 | 406,842 |
| **Total carrying amount** | **948,084** | **487,154** | **1,435,238** | 906,774 | 404,228 | 1,311,002 |

## b) 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.

***Management of liquidity risk***

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 CBB has announced various measures to combat the effects of COVID-19 and to ease liquidity in the banking sector including, concessionary repos at zero percent, reduction of cash reserve ratio from 5% to 3%; and reduction in LCR and NSFR ratio from 100% to 80%.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then aims to maintain a portfolio of short-term liquid assets, largely made up of short-term placements with financial and other institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

*35 FINANCIAL RISK MANAGEMENT (continued)*

The liquidity requirements of business units are met through treasury to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored, and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board of Directors. Daily reports cover the liquidity position of the Bank and is circulated to Management Committee (MANCOM). Moreover, quarterly reports are submitted to the Board of Directors on the liquidity position by RMD.

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 vary significantly from this analysis. Refer note 31 for the expected maturity profile of assets and liabilities.

for the year ended 31 December 2022 US$ 000's

*35 FINANCIAL RISK MANAGEMENT (continued)*

| | Gross undiscounted cash flows | | | | | | |
|---|---|---|---|---|---|---|---|
| **31 December 2022** | **Up to 3 months** | **3 to 6 months** | **6 months to 1 year** | **1 to 3 years** | **Over 3 years** | **Total** | **Carrying amount** |
| **Financial liabilities** | | | | | | | |
| Clients' funds | 87,488 | - | 35,812 | - | - | 123,300 | 123,300 |
| Placements from financial institutions | 2,361,964 | 516,253 | 639,419 | 210,554 | 62,680 | 3,790,870 | 3,790,870 |
| Placements from non-financial institutions and individuals | 159,739 | 121,865 | 251,034 | 423,025 | 108,595 | 1,064,258 | 1,064,258 |
| Current accounts | 5,497 | 16,623 | - | 54,557 | 54,557 | 131,234 | 131,234 |
| Term financing | 519,046 | 192,074 | 276,200 | 649,172 | 305,706 | 1,942,198 | 1,942,198 |
| Payables and accruals | 227,764 | 116,763 | 36,390 | 42,446 | - | 423,363 | 423,363 |
| **Total liabilities** | **3,361,498** | **963,578** | **1,238,855** | **1,379,754** | **531,538** | **7,475,223** | **7,475,223** |
| **Equity of investment account holders** | 843,389 | 35,406 | 86,546 | 288,470 | 703,664 | 1,957,475 | **1,213,674** |
| Commitment and contingencies | 56,679 | 4,098 | 48,923 | 95,664 | 234 | 205,598 | 205,484 |

To manage the liquidity risk arising from financial liabilities, the Group aims to hold liquid assets comprising cash and cash equivalents, investment in managed funds and treasury shares for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Further, the Group is focussed on developing a pipeline of steady revenues and has undertaken cost reduction exercises that would improve its operating cash flows.

| | Gross undiscounted cash flows | | | | | | |
|---|---|---|---|---|---|---|---|
| 31 December 2021 | Up to 3 months | 3 to 6 months | 6 months to 1 year | 1 to 3 years | Over 3 years | Total | Carrying amount |
| Financial liabilities | | | | | | | |
| Clients' funds | 152,925 | - | 63,837 | - | - | 216,762 | 216,762 |
| Placements from financial institutions | 1,158,602 | 591,674 | 415,501 | 18,814 | 93,889 | 2,278,480 | 2,278,480 |
| Placements non-financial institutions and individuals | 208,648 | 143,993 | 237,520 | 171,883 | 11,568 | 773,612 | 773,612 |
| Current accounts | 35,801 | 13,666 | 14,841 | 16,958 | 51,780 | 133,046 | 133,046 |
| Term financing | 578,012 | 185,494 | 512,475 | 84,031 | 390,655 | 1,750,667 | 1,750,667 |
| Payables and accruals | 96,562 | 22,225 | 229,286 | 56,581 | - | 404,654 | 404,654 |
| Total liabilities | 2,230,550 | 957,052 | 1,473,460 | 348,267 | 547,892 | 5,557,221 | 5,557,221 |
| Equity of investment account holders | 981,081 | 269,297 | 377,042 | 235,597 | 239,127 | 2,102,144 | 1,358,344 |
| Commitment and contingencies | 228 | 3,308 | 17,268 | 118,611 | 16,128 | 155,543 | 155,428 |

for the year ended 31 December 2022 US$ 000's

*35 FINANCIAL RISK MANAGEMENT (continued)*

***Measures of liquidity***

Liquidity is managed at an entity level and is not a Group wide measure. The Bank follows certain internal measures of liquidity. These metrics are intended to better reflect the liquidity position from a cash flow perspective and provide a target for the Group. These are liquidity coverage ratio, net stable funding ratio and stock of liquid assets.

For this purpose, the liquidity coverage ratio is based on an internally defined management criteria which identifies the amount of liquid assets (including inter- bank placements) the Bank holds that can be used to offset the net cash outflows for 30, 60 and 90 days time horizon. The net stable funding ratio measures the amount of long-term, stable sources of funding employed by an institution relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

Details of the ratio of liquid assets to total assets at the reporting date and during the year were as follows:

| | Liquid asset / Total asset | |
|---|---|---|
| | **2022** | 2021 |
| At 31 December | 51.93% | 47.16% |
| Average for the year | 48.04% | 43.14% |
| Maximum for the year | 51.93% | 47.16% |
| Minimum for the year | 45.65% | 40.14% |

LCR has been developed to promote short-term resilience of a bank's liquidity risk profile. The LCR requirements aim to ensure that a bank has an adequate stock of unencumbered high quality liquidity assets (HQLA) that consists of assets that can be converted into cash immediately to meet its liquidity needs for a 30 calendar day stressed liquidity period. The stock of unencumbered HQLA should enable the Bank to survive until day 30 of the stress scenario, by which time appropriate corrective actions would have been taken by management to find the necessary solutions to the liquidity crisis.

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows over the next 30 calendar days. Until 31 December 2021, the Bank is required to maintain LCR greater than 80%. As of 31 December 2022, the Bank had LCR ratio of 134%

| | **Average balance** | |
|---|---|---|
| | 31 December 2022 | 31 December 2021 |
| Stock of HQLA | 272,429 | 292,998 |
| Net cashflows | 213,055 | 148,599 |
| LCR % | 134% | 221% |
| Minimum required by CBB | 100% | 80% |

**for the year ended 31 December 2022** US$ 000's

*35 FINANCIAL RISK MANAGEMENT (continued)*

NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivise a more resilient banking sector over a longer time horizon. The NSFR will require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability.

NSFR as a percentage is calculated as "Available stable funding" divided by "Required stable funding". Until 31 December 2021, the Bank is required to maintain NSFR ratio greater than 80%. As of 31 December 2022, the Bank had NSFR ratio of 111%.

| No. | Item | No Specified Maturity | Less than 6 months | More than 6 months and less than one year | Over one year | Total weighted value |
|---|---|---|---|---|---|---|
| **Available Stable Funding (ASF):** | | | | | | |
| 1 | Capital: | | | | | |
| 2 | Regulatory Capital | 1,004,974 | - | - | 53,171 | 1,058,145 |
| 3 | Other Capital Instruments | - | - | - | - | - |
| 4 | Retail deposits and deposits from small business customers: | | | | | |
| 5 | Stable deposits | - | 158,056 | 15,076 | 26,054 | 190,530 |
| 6 | Less stable deposits | - | 1,684,867 | 423,803 | 328,355 | 2,226,158 |
| 7 | Wholesale funding: | | | | | |
| 8 | Operational deposits | - | - | - | - | - |
| 9 | Other Wholesale funding | - | 3,548,055 | 931,464 | 1,303,542 | 2,656,368 |
| 10 | Other liabilities: | | | | | |
| 11 | NSFR Shari'a-compliant hedging contract liabilities | | - | - | - | |
| 12 | All other liabilities not included in the above categories | - | 311,371 | - | 43,201 | 43,201 |
| 13 | Total ASF | | | | | |
| **Required Stable Funding (RSF):** | | | | | | |
| 14 | Total NSFR high-quality liquid assets (HQLA) | 1,761,766 | | | | 87,048 |
| 15 | Depsoits held at other financial institutions for opetational purposes | | | | | |
| 16 | Performing financing and sukuk/ securities: | | 1,576,916 | | 790,425 | 908,398 |
| 17 | Performing financial to financial institutions by level 1 HQLA | - | - | - | - | - |
| 18 | Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions | - | - | 94,704 | 1,050,345 | 940,145 |

**for the year ended 31 December 2022** US$ 000's

*36 FINANCIAL RISK MANAGEMENT (continued)*

| No. | Item | No Specified Maturity | Less than 6 months | More than 6 months and less than one year | Over one year | Total weighted value |
|---|---|---|---|---|---|---|
| 19 | Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which: | - | 294,926 | 102,548 | 279,352 | 380,316 |
| 20 | With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines | - | - | - | - | - |
| 21 | Performing residential mortgages, of which: | - | - | - | - | - |
| 22 | With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines | - | - | - | - | - |
| 23 | Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities | - | 945,435 | 388,631 | 426,531 | 1,093,564 |
| 24 | Other assets: | - | - | - | - | - |
| 25 | Physical traded commodities, including gold | - | | | | - |
| 26 | Assets posted as initial margin for Shari'a-compliant hedging contracts contracts and contributions to default funds of CCPs | | - | - | - | - |
| 27 | NSFR Shari'a-compliant hedging assets | | - | - | - | - |
| 28 | NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted | | - | - | - | - |
| 29 | All other assets not included in the above categories | 2,090,285 | - | - | - | 2,090,285 |
| 30 | OBS items | | - | - | - | 43,344 |
| 31 | Total RSF | | 2,817,278 | 585,882 | 2,546,653 | 5,543,102 |
| 32 | NSFR(%) | | | | | 111% |

for the year ended 31 December 2022 US$ 000's

*35 FINANCIAL RISK MANAGEMENT (continued)*

As at 31 December 2021

| No. | Item | No Specified Maturity | Less than 6 months | More than 6 months and less than one year | Over one year | Total weighted value |
|---|---|---|---|---|---|---|
| Available Stable Funding (ASF): | | | | | | |
| 1 | Capital: | | | | | |
| 2 | Regulatory Capital | 1,070,314 | - | - | 49,953 | 1,120,267 |
| 3 | Other Capital Instruments | - | - | - | - | - |
| 4 | Retail deposits and deposits from small business customers: | | | | | |
| 5 | Stable deposits | | 182,112 | 25,962 | 2,749 | 200,420 |
| 6 | Less stable deposits | - | 1,314,514 | 430,372 | 90,957 | 1,661,355 |
| 7 | Wholesale funding: | | | | | |
| 8 | Operational deposits | | | | | |
| 9 | Other Wholesale funding | - | 2,860,814 | 861,346 | 773,058 | 1,896,078 |
| 10 | Other liabilities: | | | | | |
| 11 | NSFR Shari'a-compliant hedging contract liabilities | | - | - | - | |
| 12 | All other liabilities not included in the above categories | - | 136,864 | 18,759 | 71,437 | 71,437 |
| 13 | Total ASF | | | | | 4,949,558 |
| Required Stable Funding (RSF): | | | | | | |
| 14 | Total NSFR high-quality liquid assets (HQLA) | 1,493,881 | | | | 73,941 |
| 15 | Depsoits held at other financial institutions for opetational purposes | | | | | |
| 16 | Performing financing and sukuk/ securities: | - | 636,283 | - | 720,739 | 708,071 |
| 17 | Performing financial to financial institutions by level 1 HQLA | - | - | - | - | - |
| 18 | Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions | - | 5,000 | - | 174,023 | 150,419 |

**for the year ended 31 December 2022** US$ 000's

*35 FINANCIAL RISK MANAGEMENT (continued)*

| No. | Item | No Specified Maturity | Less than 6 months | More than 6 months and less than one year | Over one year | Total weighted value |
|---|---|---|---|---|---|---|
| 19 | Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which: | - | 320,720 | 91,696 | 205,595 | 339,845 |
| 20 | With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines | - | - | - | - | - |
| 21 | Performing residential mortgages, of which: | - | - | - | - | - |
| 22 | With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines | - | - | - | - | - |
| 23 | Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities | - | 615,521 | 634,536 | 291,421 | 916,449 |
| 24 | Other assets: | | | | | |
| 25 | Physical traded commodities, including gold | - | | | | - |
| 26 | Assets posted as initial margin for Shari'a-compliant hedging contracts contracts and contributions to default funds of CCPs | | - | - | - | - |
| 27 | NSFR Shari'a-compliant hedging assets | | - | - | - | - |
| 28 | NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted | | - | - | - | - |
| 29 | All other assets not included in the above categories | 2,672,214 | - | - | - | 2,672,214 |
| 30 | OBS items | | - | - | - | 27,946 |
| 31 | Total RSF | | 1,577,524 | 726,232 | 1,391,778 | 4,888,886 |
| 32 | NSFR(%) | | | | | 101% |

**c) Market risks**

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income, future cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

***Management of market risks***

As a matter of general policy, the Group shall not assume trading positions on its assets and liabilities, and hence the entire balance sheet is a non-trading portfolio. All foreign exchange risk within the Group is transferred to Treasury. The Group seeks to manage currency risk by continually monitoring exchange rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. Overall authority for market risk is vested in the Board Audit and Risk Committee ('BARC'). RMD is responsible for the development of detailed risk management policies (subject to review and approval of the BARC).

***Exposure to profit rate risk***

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Majority of the Group's profit based asset and liabilities are short term in nature, except for certain long term liabilities which have been utilised to fund the Group's strategic investments in its associates.

for the year ended 31 December 2022 US$ 000's

*35 FINANCIAL RISK MANAGEMENT (continued)*

A summary of the Group's profit rate gap position on non-trading portfolios is as follows:

| **31 December 2022** | **Up to 3 months** | **3 to 6 months** | **6 months to 1 year** | **1 to 3 years** | **Over 3 years** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Treasury portfolio | 1,291,520 | 249,557 | 447,769 | 417,228 | 1,803,946 | 4,210,020 |
| Financing assets | 156,765 | 56,091 | 164,272 | 291,676 | 766,434 | 1,435,238 |
| **Total assets** | **1,448,285** | **305,648** | **612,041** | **708,904** | **2,570,380** | **5,645,258** |
| **Liabilities** | | | | | | |
| Client's fund | 87,488 | - | 35,812 | - | - | 123,300 |
| Placements from financial institutions | 2,361,964 | 516,253 | 639,419 | 210,554 | 62,680 | 3,790,870 |
| Placements from non-financial institutions and individuals | 159,739 | 121,865 | 251,034 | 423,025 | 108,595 | 1,064,258 |
| Term financing | 519,046 | 192,074 | 276,200 | 649,172 | 305,706 | 1,942,198 |
| **Total liabilities** | **3,128,237** | **830,192** | **1,202,465** | **1,282,751** | **476,981** | **6,920,626** |
| **Equity of investment account holders** | **99,588** | **35,406** | **86,546** | **288,470** | **703,664** | **1,213,674** |
| **Profit rate sensitivity gap** | **(1,779,540)** | **(559,950)** | **(676,970)** | **(862,317)** | **1,389,735** | **(2,489,042)** |

| 31 December 2021 | Up to 3 months | 3 to 6 months | 6 months to 1 year | 1 to 3 years | Over 3 years | Total |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Treasury portfolio | 1,067,800 | 91,561 | 31,243 | 454,734 | 1,485,908 | 3,131,246 |
| Financing assets | 308,832 | 64,197 | 95,926 | 418,316 | 423,731 | 1,311,002 |
| Total assets | 1,376,632 | 155,758 | 127,169 | 873,050 | 1,909,639 | 4,442,248 |
| Liabilities | | | | | | |
| Client's fund | 152,925 | - | 63,837 | - | - | 216,762 |
| Placements from financial institutions | 1,158,602 | 591,674 | 415,501 | 18,814 | 93,889 | 2,278,480 |
| Placements non-financial institutions and individuals | 208,648 | 143,993 | 237,520 | 171,883 | 11,568 | 773,612 |
| Term financing | 578,012 | 185,494 | 512,475 | 84,031 | 390,655 | 1,750,667 |
| Total liabilities | 2,098,187 | 921,161 | 1,229,333 | 274,728 | 496,112 | 5,019,521 |
| Equity of investment account holders | 237,281 | 269,297 | 377,042 | 235,597 | 239,127 | 1,358,344 |
| Profit rate sensitivity gap | (958,836) | (1,034,700) | (1,479,206) | 362,725 | 1,174,400 | (1,935,617) |

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide. 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:

for the year ended 31 December 2022 US$ 000's

*35 FINANCIAL RISK MANAGEMENT (continued)*

| 100 bps parallel increase / (decrease) | **2022** | 2021 |
|---|---|---|
| At 31 December | ±24,890 | ±19,769 |
| Average for the year | ±20,580 | ±18,108 |
| Maximum for the year | ±24,890 | ±19,879 |
| Minimum for the year | ±16,532 | ±16,082 |

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

The effective average profit rates on the financial assets, liabilities and unrestricted investment accounts are as follows:

| | **2022** | 2021 |
|---|---|---|
| Placements with financial institutions | 3.46% | 3.18% |
| Financing assets | 6.89% | 6.09% |
| Debt type investments Sukuk | 6.18% | 6.38% |
| Placements from financial institutions, other entities and individuals | 4.53% | 4.76% |
| Term financing | 2.49% | 2.55% |
| Equity of investment account holders | 3.75% | 2.56% |

***Exposure to foreign exchange risk***

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Groups major exposure is in GCC currencies, which are primarily pegged to the US Dollar. The Group had the following significant net exposures denominated in foreign currency as of 31 December from its financial instruments:

| | **2022** US$ '000 Equivalent | 2021 US$ '000 Equivalent |
|---|---|---|
| Sterling Pounds | 5,720 | 1,895 |
| Euro | 9,569 | (2,619) |
| Australian Dollars | 11,963 | 13,528 |
| Kuwaiti Dinar | 7,922 | 39,793 |
| Other GCC Currencies (*) | (3,510,244) | (1,376,341) |

*(*) These currencies are pegged to the US Dollar.*

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered include a 5% plus / minus increase in exchange rates, other than GCC pegged currencies. An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) is as follows:

for the year ended 31 December 2022 US$ 000's

*35 FINANCIAL RISK MANAGEMENT (continued)*

| | **2022** US$ '000 Equivalent | 2021 US$ '000 Equivalent |
|---|---|---|
| Sterling Pounds | ±286 | ±95 |
| Euros | ±478 | ± 131 |
| Australian dollar | ±598 | ±676 |
| Kuwaiti dinar | ±396 | ±1,990 |
| *Structural positions of foreign operation* | | |
| Moroccan Dirham | - | ±7,891 |
| Tunisian Dinar | - | ±15,238 |
| Indian rupee | - | ±13,635 |

***Exposure to other market risks***

Equity price risk on quoted investments is subject to regular monitoring by the Group. The price risk on managed funds is monitored using specified limits (stop loss limit, stop loss trigger and overall stop loss limit cap) set within the portfolio management contract for fund managers. The Group's equity type instruments carried at cost are exposed to risk of changes in equity values.

The significant estimates and judgements in relation to impairment assessment of fair value through equity investments carried at cost are included in note 5b(ii). The Group manages exposure to other price risks by actively monitoring the performance of the equity securities.

**d) 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 facilitates the management of Operational Risk by way of assisting in the identification of, monitoring and managing of operational risk in the Group.

In response to COVID-19 outbreak, there were various changes in the working model, interaction with customers, digital modes of payment and settlement, customer acquisition and executing contracts and carrying out transactions with and on behalf of the customers. The management of the Group has enhanced its monitoring to identify risk events arising out of the current situation and the changes in the way business is conducted. The operational risk department has carried out a review of the existing control environment and has considered whether to update the risk registers by identifying potential loss events based on their review of the business processes in the current environment.

During 2022, the Group did not have any significant issues relating to operational risks.

## 36 CAPITAL MANAGEMENT

The Group's regulator Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements CBB requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The total regulatory capital base is net of prudential deductions for large exposures based on specific limits agreed with the regulator. Banking 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 does not have a trading book.

The Group aims to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The CBB sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. Capital adequacy regulations of CBB is based on the principles of Basel III and the IFSB guidelines.

The Bank's regulatory capital is analysed into two tiers:

***Tier 1 capital: includes CET1 and AT1.***
CET1 comprise of ordinary share capital that meet the classification as common shares for regulatory purposes, disclosed reserves including share premium, general reserves, legal / statutory reserve, common shares issued by consolidated banking subsidiaries of the Bank and held by third parties, retained earnings after regulatory adjustments relating to goodwill and items that are included in equity which are treated differently for capital adequacy purposes.

AT1 comprise of instruments that meet the criteria for inclusion in AT1, instruments issued by consolidated banking subsidiaries of the Bank held by third parties which meet the criteria of AT1, and regulatory adjustments applied in calculation of AT1.

***Tier 2 capital***
This includes instruments issued by the Bank that meet the criteria for inclusion in Tier 2 capital, stock surplus resulting from issue of Tier 2 capital, instruments issued by consolidated banking subsidiaries of the Bank held by third parties that meet the criteria for inclusion in Tier 2, general provisions held against unidentified losses on financing and qualify for inclusion within Tier 2, asset revaluation reserve from revaluation of fixed assets and instruments purposes and regulatory adjustments applied in the calculation of Tier 2 capital

The regulatory adjustments are subject to limits prescribed by the CBB requirements, these deductions would be effective in a phased manner through transitional arrangements from 2015 to 2018. The regulations prescribe higher risk weights for certain exposures that exceeds materiality thresholds. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitization transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities, investment in the capital of Banking and financial entities that are outside the scope of regulatory consolidation and where the Bank does not own more than 10% of issued common shares capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.
Banking 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.

for the year ended 31 December 2022 US$ 000's

*36 CAPITAL MANAGEMENT (continued)*

To combined the effect of COVID-19, the CBB has allowed the aggregate of modification loss and incremental ECL provision for stage 1 and stage 2 for the period from March to December 2020 to be added back to Tier 1 capital for the two years ending 31 December 2020 and 31 December 2021 and to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ended 31 December 2022, and ending 31 December 2023 and 31 December 2024.

The Bank's regulatory capital position was as follows:

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| CET 1 Capital before regulatory adjustments | 1,020,249 | 1,063,515 |
| Less: regulatory adjustments | - | - |
| CET 1 Capital after regulatory adjustments | 1,020,249 | 1,063,515 |
| T 2 Capital adjustments | 52,628 | 53,374 |
| **Regulatory Capital** | **1,072,877** | 1,116,889 |
| Risk weighted exposure: | | |
| Credit Risk Weighted Assets | 6,799,081 | 7,574,496 |
| Market Risk Weighted Assets | 54,624 | 38,325 |
| Operational Risk Weighted Assets | 431,784 | 655,034 |
| **Total Regulatory Risk Weighted Assets** | **7,285,489** | 8,267,855 |
| Investment risk reserve (30% only) | 2 | 2 |
| Profit equalization reserve (30% only) | 3 | 3 |
| **Total Adjusted Risk Weighted Exposures** | **7,285,484** | 8,267,850 |
| Capital Adequacy Ratio | **14.73%** | 13.51% |
| Tier 1 Capital Adequacy Ratio | **14.00%** | 12.86% |
| Minimum required by CBB | 12.50% | 12.50% |

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Group's capital management policy seeks to maximise return on risk adjusted capital while satisfying all the regulatory requirements. The Group's policy on capital allocation is subject to regular review by the Board of Directors. The Group has complied with the externally imposed capital requirements set by the regulator for its consolidated capital adequacy ratio throughout the year.

## 37 DECONSOLIDATION OF SUBSIDIARIES.

During the period, GFH Group has carried out a group restructuring program (the 'program') which involves the spinning off of its infrastructure and real estate assets under a new entity "Infracorp" ("the Company"), which wase capitalized with US$1.1 billion in infrastructure and development assets. Infracorp will specialise in investments focusing on accelerating growth and development of sustainable infrastructure assets and environments across the Gulf and global markets.

Under this program certain real estate and infrastructure assets were transferred from the Group, to Infracorp for an in-kind consideration financed by US$ 200 million of equity shares and US$ 900 million of Hybrid Sukuk (perpetual equity) issued by Infracorp.

The transfer of these assets were affected in the quarter ended 31 March 2022. Subsequent to the transfer of these assets Group sold 60% of its equity in Infracorp to third party investors, resulting in loss of controlling stake and this resulted in Infracorp no longer being a subsidiary of Group as at 31 December 2022 and has been accounted for as an equity accounted investee. The results of operation of Infracorp till the date of its disposal are consolidated in these condensed interim consolidated financial statements. The impact of the disposal of Infracorp is presented below:

for the year ended 31 December 2022 US$ 000's

*37 DECONSOLIDATION OF SUBSIDIARIES (continued)*

| | 31 December 2022 |
|---|---|
| **ASSETS** | |
| Cash and bank balances | 80,119 |
| Treasury portfolio | 50,912 |
| Financing assets | 38,100 |
| Real estate investment | 847,221 |
| Proprietary investment | 67,861 |
| Co-Investments | 120,735 |
| Receivables & prepayments | 87,645 |
| Property and equipment | 81,201 |
| **Total** | **1,373,794** |
| **LIABILITIES** | |
| Term financing | **24,467** |
| Payables and accruals | **107,610** |
| **Total** | **132,499** |
| **Non-controlling interest** | **141,717** |
| **Net assets transferred** | **1,100,000** |
| **Consideration on the date of transfer:** | |
| Equity in Infracorp | 200,000 |
| Hybrid perpetual sukuk | 900,000 |
| | **1,100,000** |

| | 31 December 2022 (reviewed) |
|---|---|
| Net profit included in the current period condensed consolidated income statement ** | (438) |

*** Net profits includes cumulative profit from all the assets and subsidiaries transferred as part of the consolidation of subsidiaries*

*Discontinuing operations*:
The assets of the business forming part of Infracorp were not necessarily operated as stand-alone segment and largely reflect land bank and infrastructure development projects of the Group that were carved-out under a new business model. Hence, the net assets transferred to infracorp were not classified as discontinued operations other than as disclosed below in relation to its industrial operations.

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*37 DECONSOLIDATION OF SUBSIDIARIES (continued)*

**A. Results of discontinued operation**

| | **31 December 2022 3 months** | 31 December 2021 **12 months** |
|---|---|---|
| Revenue | 5,391 | 5,226 |
| Expenses | 5,347 | 5,305 |
| **Net profit** | **44** | (79) |

**B. Cash flows used in discontinued operation**

| | **31 December 2022 3 months** | 31 December 2021 **12 months** |
|---|---|---|
| Net cash flow from operating activities | 182 | (863) |
| Net cash flow used in investing activities | (317) | (1) |
| Net cash flow from financing activities | 3 | 266 |
| **Net cash flows used in discontinued operation** | **(132)** | (598) |

## 38 ACQUISITION OF SUBSIDARIES

During the year, the Group acquired controlling stake in the following subsidiaries

| | **% stake acquired** | **Place of incorporation** | **Nature of activities** |
|---|---|---|---|
| SQ Topco II LLC | 51% | United States | Property asset management Company |
| Big Sky Asset Management LLC | 51% | United States | Real estate investment manager |
| Al Areen Hotels W.L.L. | 100% | Kingdom of Bahrain | Hospitality Management |

***Consideration transferred and non-controlling interests***

The consideration transferred for the acquisition was in the form of cash and in-kind for the services rendered by the Group. The consideration transferred is generally measured at fair value and the stake held by shareholders other than the Group in the subsidiaries is recognised in the consolidated financial statements under "Non-controlling interests" based on the proportionate share of non-controlling shareholders' in the recognised amounts of the investee's net assets or fair value at the date of acquisition of the investee on a transaction by transaction basis based on the accounting policy choice of the Group. Where consideration includes contingent consideration payable in future based on performance and service obligations of continuing employees, these are accounted under IFRS 2 – *Share based payments.*

***Identifiable assets acquired and liabilities assumed***

Entity acquired was considered as a business. The fair value of assets, liabilities, equity interests have been reported on a provisional basis. If new information, obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date, identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised. Revisions to provisional acquisition accounting are required to be done on a retrospective basis.

for the year ended 31 December 2022 US$ 000's

*38 ACQUISITION OF SUBSIDARIES (Continued)*

The reported amounts below represent the adjusted acquisition carrying values of the acquired entities at the date of acquisition reported on a provisional basis as permitted by accounting standards.

| | **Total** |
|---|---|
| Intangible asset | 8,350 |
| Tangible assets | 153,519 |
| Receivables | 2,006 |
| Cash and bank balances | 2,093 |
| **Total assets** | **165,968** |
| Accruals and other liabilities | 30,942 |
| **Total liabilities** | **30,942** |
| **Total net identifiable assets and liabilities (A)** | **135,026** |

| | **Total** |
|---|---|
| Consideration | 134,205 |
| Non-controlling interests recognised | 821 |
| **Total consideration (B)** | **135,026** |
| **Goodwill / Bargain purchase (B-A)** | **-** |

For the purpose of consolidated statement of cash flows, net cash acquired on business combination is given below:

| | **Total** |
|---|---|
| Cash and bank balances acquired as part of business combination | 2,006 |
| Less: consideration | (134,205) |
| Net cash flows from acquisition of subsidiaries | **(132,199)** |

The Group has also acquired assets under management of US$ 1,315,915 thousand along with the above acquisition. Income for the first nine months assuming the transaction was done at the beginning of the year would have been US$ 1,200 thousand.

## 39 COMPARATIVES

Certain prior year amounts have been regrouped to conform to the current year's presentation. Such regrouping did not affect previously reported profit for the year or total owners' equity.