«ابتسامة» تشارك الأطفال مرضى السرطان فرحة العيد

أعلنت مبادرة «ابتسامة»، التابعة لجمعية المستقبل الشبابية والمعنية بدعم الأطفال مرضى السرطان وأهاليهم في مملكة البحرين، عن زيارة متطوعيها للأطفال مرضى السرطان في وحدة عبدالله خليل كانو لعلاج أورام الأطفال بجناح 202 في مجمع السلمانية الطبي بمناسبة عيد الأضحى المبارك، وذلك لمشاركة الأطفال فرحة العيد. وخلال الزيارة، وزع المتطوعون الهدايا والعيادي على الأطفال مرضى السرطان لإدخال الفرحة والبهجة في قلوبهم، وبما يجسد أهداف المبادرة الرامية إلى رسم الابتسامة على وجوه الأطفال وتقديم الدعم النفسي لهم.

وأكد رئيس جمعية المستقبل الشبابية صباح الزياني أن هذه الزيارة تأتي امتداداً لعدد من المبادرات التي تحرص مبادرة «ابتسامة» على تنفيذها في مختلف المناسبات بهدف إسعاد الأطفال الأبطال مرضى السرطان وتقديمٍ دعم نوعي لهم يعينهم على رحلة العلاج والتعافي، مشيراً إلى اهتمام وحرص المبادرة على استثمار الأعياد في رفع معنويات الأطفال المرضى الذين أبعدتهم ظروفهم الصحية عن اللعب مع أقرانهم في أيام العيد.

طلاب البحرين والخليج يشاركون بأوراق علمية في مؤتمر بالسويد

شارك طالب الدكتوراه البحريني يوسف الكعبي بورقة علمية في مؤتمر (R&D Management 2024) المقام في السويد، بمشاركة خليجية وعالمية واسعه حيث تجاوز عدد الحضور 700 باحث وطالب دراسات عليا من مختلف جامعات العالم.

حيث عرض فيه طالب الدكتوراه يوسف الكعبي ورقة علمية تتعلق بتعزيز الحلول المستدامة من خلال التحكم في الابتكار القائم على التحديات في القطاع العام في مملكة البحرين، والذي يتعلق بأهمية توحيد الجهود التقنية المتعلقة بالتحول الإلكتروني للخدمات العامة ومدى إمكانية تطويرها، مع التطرق إلى بعض الأمثلة الدولية التي نجحت في هذه المرحلة الانتقالية المهمة.

وشارك طالب الدكتوراه الكويتي مشاري الكليب بورقة علمية تتعلق بالاستفادة من الابتكار في تحقيق الاستدامة في القطاع العام ومناقشة النظريات المرتبطة بالموضوع واقتراح آليات تطبيقها.

وأشادت مديرة الابتكار في مدينة ستوكهولم بالطلاب البحرينيين والخليجيين المشاركين في المؤتمر الذي شارك فيه أكثر من 700 طالب وباحث من مختلف الجامعات الدولية.

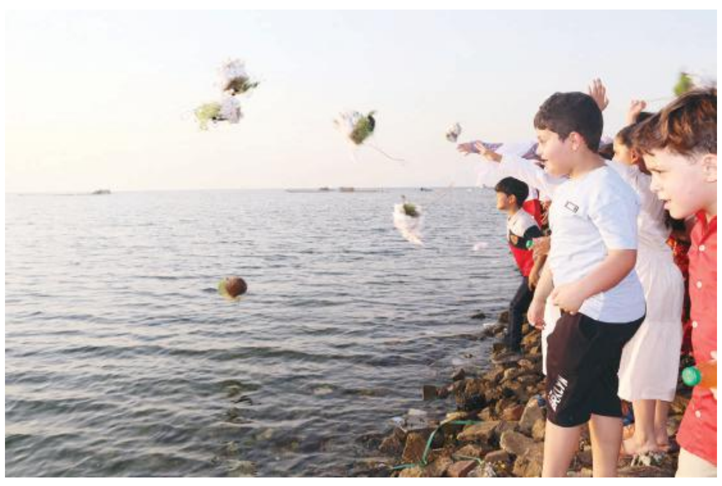
«الحية بية» ترسم الفرح على وجوه الأيتام بأنامل «الهلال الأحمر»

نظمت جمعية الهلال الأحمر البحريني ممثلة بـ«لجنة الشباب» فعالية «الحية بية» بحضور عدد من كوادر الجمعية ومتطوعيها وعوائلهم وعدد كبير من الأطفال معظمهم من الأيتام.

وقالت «الهلال الأحمر» إن فعالية «الحية بية» جاءت في إطار المسؤولية الاجتماعية للجمعية، وسعيها الدائم للمشاركة في الفعاليات الشعبية وتوطيد العلاقات مع مختلف فئات المجتمع.

واحتفى متطوعو الجمعية بالأطفال المشاركين من خلال رمي نبتة «الحية بية» في البحر على ساحل كرباباد، كما استثمر المتطوعون هذه الفعالية بتعريف المشاركين فيها بالهلال الأحمر البحريني وأنشطته ومبادراته وآلية عمله، إضافة إلى ما يقوم به من عمل إغاثي وإنساني داخل وخارج مملكة البحرين.

وتحرص جمعية الهلال الأحمر البحريني على إقامة احتفالية «الحية بية» لما لها من مكانة في التراث الشعبي في البحرين والخليج العربي، حيث يحرص الأهالي على زرع نبتة الحية بية والعناية بها، ومن ثمّ رميها يوم التاسع من ذي الحجة في البحر من أجل التضحية بالنبتة والتمني بعودة الحجاج سالمين، مع ترديد أهزوجة «الحية بية» المشهورة، وهو ما يغرس التضامن مع الحجاج ويزرع روح التعاون والتضحية والعطاء في نفوس الصغار منذ الطفولة.



Eid Al Adha ignites shopping boom

Mohammed Darwish
TDT | Manama

Image used for illustrative purposes only

The air was charged with excitement as Bahrain's markets overflowed with Eid Al Adha shoppers seeking festive attire and indulging in celebratory purchases.

From bustling storefronts to vibrant online marketplaces, the Kingdom saw a surge in sales, particularly in the clothing and footwear sectors, which experienced a notable 31.1% growth.

This shopping frenzy mirrored Bahrain's evolving digital economy. Point-of-sale and e-commerce transactions increased by 12.2%, reaching BD100.5 million, indicating a growing reliance on digital payment systems.

Consumers embraced online shopping, with e-commerce transactions comprising 34.3% of the total.

Contactless payments

Additionally, contactless payments accounted for 51.3% of all transactions, reflecting the increasing adoption of modern and secure payment technologies.

The Eid Al Adha shopping trends illustrated a nation balancing tradition and technological advancement.

As families gathered to celebrate, digital wallets buzzed alongside joyous chatter, marking a truly modern Eid experience in Bahrain.

Festive spirit

In the week leading up to Eid Al Adha, sales of shoes and clothing surged, reflecting the festive spirit.

> During Eid Al-Adha celebrations, Bahrain embraced tradition alongside technological progress. Families united in festivities, with digital wallets complementing joyous conversations, reflecting a modern Eid experience.

The clothing and footwear sector's 31.1% growth demonstrated its popularity among consumers.

This growth emphasised the importance of e-commerce and digital payment systems in Bahrain's economy.

Consumers made approximately 4.3 million payments, with government services leading the spending categories with a 1.2% increase.

Meanwhile, the restaurant sector saw a 1.2% decline, and the supermarket sector enjoyed a 0.4% increase.

34.3%
Total online shopping e-commerce transactions.

The telecommunications sector, however, experienced a 12.6% decrease.

Bahraini debit and credit cards accounted for 81.7% of the total transaction value, with non-Bahraini cards making up the remaining 18.3%.

The Eid Al Adha shopping trends indicate evolving consumer behaviour in Bahrain, with a growing preference for online shopping and digital payment methods.

The strong performance of the clothing and footwear sector further confirms the significance of these categories during festive occasions.

Travelers Tribe Masonic Club holds double celebration

Induction of officers

Anniversary and induction ceremony

TDT | Manama

Drawing an enthusiastic crowd of admiration and pride, about 250 participants attended the Travelers Tribe Masonic Club of Bahrain 21st anniversary celebration and induction of officers held at the Golden Tulip Hotel on 7th June 2024.

The event was graced by prominent leaders and elders of the group embodying the principles of brotherhood, enlightenment, and philanthropy. Distinguished guests from the Philippines came to witness the formal induction ceremony.

Masters of ceremony Mark Ferrido and Rey Giron warm and inclusive welcome has set an inspiring tone of making the gathering special.

The solemn traditional celebration was kicked off with the singing of national anthems of the Philippines, the Kingdom of Bahrain and the US followed by an invocation led by Joey Dopeno.

A special message was delivered by Benjamin Cariaga, one of the past presidents of the group reflecting on the journey and achievements witnessing the growth and the unwavering commitment of the members on the shared mission.

Asian intruder jailed, faces deportation

TDT | Manama

The Court of Cassation has upheld a three-month prison sentence for an Asian man who entered a citizen's residence without permission.

The court also ordered the defendant's deportation after serving his sentence.

The incident occurred following a dispute between the defendant and his girlfriend, a domestic worker residing in the victim's house.

The defendant entered the victim's residence without permission by stealthily climbing through a window and proceeded to his girlfriend's room to resolve their disagreement.

When the girlfriend refused to speak with him, the defendant opened her door, prompting her to report the incident to the authorities.

The Public Prosecution charged the defendant with the misdemeanor of entering a person's residence without permission in violation of Articles 64 and 361 of the Penal Code.

Esterad Bank B.S.C. (c)

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

31 December 2023

Commercial registration	:	58222-1 (registered with Central Bank of Bahrain as an Islamic wholesale Bank)
Registered Office	:	Office 302, Building 1411 Road 4626, Block 346 Manama, Kingdom of Bahrain Telephone: 17518888
Directors	:	Sheikh Mohamed Bin Duaij Al Khalifa Ahmed Abdulwahed Ahmed Abdulrahman Bashar Mohamed Ebrahim Almutawa Robert Coleman Wages Isa Abdulrasool Abdulhusain Merza Jawahery
Acting Chief Executive Officer	:	Ahmed Abdulwahed Ahmed Abdulrahman
Auditors	:	KPMG Fakhro

CONTENTS

ESTERAD

Chairman's Statement

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

On behalf of the Board of Directors, I would like to present the consolidated financial statements of Esterad Bank for the fiscal year ended 31st December 2023.

2023 has been a favorable year paving the way for growth of the Group despite the unpredictable market conditions and regional geopolitical tensions. Since the acquisition by Esterad Investment Company B.S.C (c) ("Esterad") the restrictions on the Bank's investment banking activities reduced, allowing the Bank to increase assets, decrease liabilities, rise to positive equity, and remain agile in facing challenges.

The Bank continues to place the interests of its investors and shareholders at the heart of its decision-making process and remains committed to attaining a sustainable progress across its investment banking, proprietary investments and treasury businesses in order to deliver additional value to all its stakeholders. The Bank has been innovative in its approach and is now well positioned to navigate its challenges and capitalize on any opportunities that arise, placing the Bank on a trajectory to a more profitable and sustainable future. This is a testament to the Group's commitment, dedication, and focus.

The Bank reported a loss of USD 5.5 million compared to USD 20.1 million in the prior year. Total revenue was USD 11.8 million compared to USD 6.7 million in the prior year, while operating expenses reduced to USD 11.8 million from USD 16.4 million in the previous year. During the current year, the Bank recorded a fair value loss of USD 3.5 million compared to a fair value loss of USD 1.6 million in the previous year; while impairment losses were lower at USD 6.4 million compared to USD 7.3 million in the previous year.

The Bank's total assets during the year ending 31 December 2023 increased to USD 40.5 million from USD 34.5 million predominantly due to assets taken over from investors upon the issuance of perpetual Sukuks (Additional Tier 1 Sukuk or subordinated Mudharaba). Total liabilities decreased to USD 40.4 million from USD 50.7 million in the previous year predominantly due to settlement of debts during the year. Shareholders' Equity stands at a positive USD 42 thousand compared to a negative equity of USD 16.3 million in the previous year.

Looking ahead, while we expect the macroeconomic environment to remain extremely challenging, investors in the Middle East are well positioned to take advantage of opportunities that arise from the series of market shifts that have occurred. With the new management team and Esterad's partnership, the Board is optimistic that Esterad Bank can grow its investment banking activities, generate revenue and cash flow to return to profitability in 2024.

ESTERAD

The Board and Management will continue to work closely together on addressing all existing issues and future challenges, with the objective of re-establishing Esterad Bank as a soundly governed, leading regional financial institution.

In conclusion, on behalf of the Board of Directors, I extend my sincere thanks and appreciation to His Majesty King Hamad bin Isa Al Khalifa and His Royal Highness Prince Salman bin Hamad Al Khalifa, for their wise leadership and reform programme, and their encouragement for the Islamic banking sector. Grateful acknowledgements are also due to the Central Bank of Bahrain, the Ministry of Industry and Commerce and other Government institutions, for their continued professional advice and support during the period. I would also like to express my gratitude to our shareholders, clients and business partners for their enduring loyalty and confidence; and to our Shari'ah Supervisory Board for its ongoing guidance and supervision. I also pay special tribute to the Bank's management and staff for their highly valued dedication and professionalism in yet another extremely challenging year. May Allah guide us on the proper path and lead us to the realization of our goals for the future success of the Bank.

Finaly, in line with the requirements of Article 188 of the Commercial Company Law, 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 2023.

First: Board of Directors' Remuneration Details:

Figures in USD'000

Name	Fixed remunerations				Variable remunerations				End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the Chairman and Board	Total allowance for attending Board and committee meetings	Others	Total	Remunerations of the Chairman and Board	Incentive plans	Others	Total			
Independent Directors:											
Sheikh Mohamed Bin Duaij Al Khalifa	-	84	-	84	-	-	-	-	-	84	-
Bashar Mohamed Ebrahim Almutawa	-	63	-	63	-	-	-	-	-	63	-
Isa Abdulrasool Abdulhusain Merza Jawahery	-	63	-	63	-	-	-	-	-	63	-
Executive Directors:											
Ahmed Abdulwahed Ahmed Abdulrahman	-	30	-	30	-	-	-	-	-	30	-
Robert Coleman Wages	-	30	-	30	-	-	-	-	-	30	-
Total	-	**270**	-	**270**	-	-	-	-	-	**270**	-

ESTERAD

Second: Executive management remuneration details:

Figures in USD'000

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2022	Aggregate Amount
*Remunerations for executives, including CEO and Senior Financial Officer	1,057	-	-	1,057
Notes: Top 6 remunerations for executives, including CEO* and Senior Financial Officer*				

Shaikh Mohamed Bin Duaij Al Khalifa
Chairman of the Board

Ahmed Abdulwahed Ahmed Abdulrahman
Acting Chief Executive Officer

Date: 20 June 2024

Shari’ah Supervisory Board Report

In The Name of Allah, most Gracious.
Most Merciful Peace and Blessings Be Upon His Messenger

To the Shareholders of Esterad Bank B.S.C ©

Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

In compliance with our appointment obligations, we hereby present the following report pertaining to the audited Financial Statements for the year ended 31 December 2023:

During the year ending 31 December 2023, the Shari'ah Supervisory Board (SSB) assessed all investments, contracts, and agreements undertaken by the Bank. Our primary objective was to assess the degree to which these financial activities adhered to the principles of Islamic Shari'ah, including the fatwas and decisions issued by the SSB.

The Bank's management bears responsibility for ensuring compliance with the principles of Islamic Shari'ah, including fatwas and guidelines issued by the SSB. The SSB responsibility is to independently evaluate the Bank's investments, contracts, and agreements made during the fiscal year ended 31 December 2023.

In Our Opinion:

1. Overall, we have determined that the Bank's contracts, transactions, and deals during the year ended of 31 December 2023, comply with the rules and principles of Islamic Shari'ah.
2. The allocation of profit and the handling of losses related to investment accounts also adhere to Islamic Shari'ah principles.
3. The calculation of Zakat also complies with the rules and principles of Islamic Shari'ah. The Bank has utilized the Net Asset Method, as outlined in the AAOIFI standards. It is important to note that the responsibility for the payment of Zakat lies with the shareholders.
4. During the year, revenues generated from not-compliant sources with the principles and regulations of Islamic law were purified.
   In relation to certain Shariah non-compliant assets, the bank is actively engaged in the process of either transforming them into Shariah-compliant alternatives or divesting from them whenever a suitable opportunity aries,

We pray that Allah may grant all of us further success and prosperity.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.

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

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Kingdom of Bahrain

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Kingdom of Bahrain

Telephone +973 17224807
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Website: www.kpmg.com/bh
CR No. 6220 - 2

Independent auditors' report

To the Shareholders of

Esterad Bank B.S.C. (C)
P.O. Box 11755
Manama - Kingdom of Bahrain

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of Esterad Bank B.S.C. (C) (the "Bank"), and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statements of income, changes in owner's equity, cash flows, and changes in restricted investment accounts for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Except for the non-compliance which is mentioned in the accompanying Shari'ah Supervisory Board Report related to some investments which are not aligned to Shari'ah Principles, in our opinion, the Group has complied with the Islamic Shariah Principles and Rules as determined by the Group's Shariah Supervisory Board during the year ended 31 December 2023.

Basis for Disclaimer of Opinion

1) We draw attention to note 2 to the accompanying consolidated financial statements, which describes that during the year ended 31 December 2023, the Group incurred a net loss of USD 5,535 thousand and, as of that date, the Group had accumulated losses of USD 29,252 thousand resulting in negative equity attributable to shareholders of USD 22,761 thousand, and its total assets with maturities up to 12 months fell short of the Group's liabilities with similar maturity by USD 9,394 thousand. Furthermore, the Group has breached certain regulatory requirements as explained in note 2 to the consolidated financial statements. These conditions, together with the potential effect of the matters described in paragraphs 2 and 3 below, indicate that the going concern assumption used in the preparation of the accompanying consolidated financial statements is not appropriate. The accompanying consolidated financial statements do not contain any adjustments that may be warranted if the Group was unable to continue as a going concern nor do they adequately describe the basis for the going concern assumption.

2) As disclosed in note 35 to the consolidated financial statements, the Group manages certain investments in a fiduciary capacity. The Group was found to be non-compliant with certain regulatory requirements in relation to the admission of certain investors, as well as other fiduciary responsibilities while the management has remedied and settled some of these irregularities, the Group remains exposed to potential claims in relation to these matters for which a provision of USD 7,389 thousands has been recognised in the consolidated financial statements based on management's best estimate of likely settlement amounts . Based on the current position of discussions and available evidence, we are unable to assess the amount and timing of the settlement of these potential claims, if any. Consequently, we are unable to determine the adjustments that maybe required to be made in the consolidated financial statements in relation to this matter.

3) As disclosed in note 36 to the consolidated financial statements, the Group had issued letters of guarantee to certain investment companies/projects. For one such letter of guarantee, the creditor to the investee has initiated legal action against the investee company and have demanded validation of the corporate guarantees provided by various shareholders of the investee company, including the Group, from which material liabilities could arise. The Group's share of the potential liability arising from this letter of guarantee is USD 17,391 thousand for which no provision has been recognised in the consolidated financial statements as at 31 December 2023. We are unable to determine the adjustments that may be required to be recorded in the consolidated financial statements in relation to this matter.

4) The Group has wakala contract receivables for which expected credit loss ("ECL") was not recognised in period before 30 June 2022. The Bank has made full provision for wakala contract receivable as 30 September 2022, however, has not restated the balances for prior period in line with requirements of Financial Accounting Standard (1) "General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions" and recorded the entire ECL in the period ended 30 September 2022. Accordingly, the opening retained earnings as at 1 January 2022 and the losses for the year 2022 should be decreased by USD 6,670.

Responsibilities of Board of Directors for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

Independent auditors' report (continued)
Esterad Bank B.S.C. (C)

Report on Other Regulatory Requirements

As required by the Commercial Companies Law 2001 (as amended) and Volume 2 of the Rulebook issued by the Central Bank of Bahrain ("CBB"), except for the matters described in *Basis for Disclaimer of Opinion* section of our report and matter disclosed in note 2, we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statement are in agreement therewith;
b) the financial information contained in the chairman's statement is consistent with the consolidated financial statements;
c) we are not aware of any other violations during the year of the Commercial Companies Law 2001 (as amended), the CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), and the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG

KPMG Fakhro
Partner Registration Number 137
25 June 2024

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Note	***31 December 2023 USD '000***	*31 December 2022 USD '000*
ASSETS			
Balances with banks	7	**2,116**	2,633
Placements with financial institutions	7	**1,608**	228
Investments	8	**25,984**	19,250
Receivables	12	**-**	781
Funding to project companies	13	**2,242**	2,283
Other assets	14	**1,193**	1,330
Right-of-use asset	15	**3,326**	3,477
Property and equipment	16	**3,999**	4,466
TOTAL ASSETS		40,468	34,448
LIABILITIES			
Islamic finance	17	**-**	13,267
Employee accruals		**257**	493
Ijarah liability	15	**3,612**	3,702
Other liabilities	18	**36,557**	33,261
Total liabilities		40,426	50,723
EQUITY			
Share capital	19	**1,005**	1,005
Statutory reserve	19	**5,441**	5,441
Investment fair value reserve		**45**	537
Accumulated losses		**(29,252)**	(23,258)
Equity attributable to Shareholders		(22,761)	(16,275)
Subordinated Mudharaba (AT1)	19	**22,803**	-
Total equity		42	(16,275)
TOTAL LIABILITIES AND EQUITY		40,468	34,448
OFF-BALANCE SHEET ITEMS			
Equity of investment account holders		**125**	120

Sheikh Mohamed Bin Duaij Al Khalifa
Chairman

Ahmed Abdulwahed Ahmed Abdulrahman
Board Member & Acting CEO

The attached notes 1 to 39 are part of these consolidated financial statements

Esterad Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2023

	Note	*31 December 2023 USD '000*	*31 December 2022 USD '000*
REVENUE			
Management fee, net	20	**9,102**	3,501
Other investment income	21	**116**	683
Loss on sale of investment - net	22	**(187)**	-
Rental and other income	23	**6,230**	4,163
Net change in fair value of investments carried at fair value through income - net	24	**(3,480)**	(1,585)
Share of loss of associates and joint venture - net	9	-	(108)
Total revenue		**11,781**	6,654
EXPENSES			
Staff cost	25	**3,267**	2,899
Legal and professional fees		**1,415**	1,089
Finance expense	26	**227**	208
Depreciation	15,16	**380**	413
Loss on settlement of liabilities	29	**3,585**	-
Other expenses	28	**2,882**	11,744
Total expenses		**11,756**	16,353
LOSS BEFORE IMPAIRMENT PROVISIONS		**25**	(9,699)
Impairment of investments	8,9	**(6,424)**	(7,304)
Provision for credit losses		**1,174**	(3,309)
Impairment of property and equipment	16	**(310)**	189
LOSS FOR THE YEAR		**(5,535)**	(20,123)

Sheikh Mohamed Bin Duaij Al Khalifa
Chairman

Ahmed Abdulwahed Ahmed Abdulrahman
Board Member & Acting CEO

The attached notes 1 to 39 are part of these consolidated financial statements

Esterad Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF CHANGES IN OWNER'S EQUITY

For the year ended 31 December 2023

	Note	*Share capital USD '000*	*Statutory reserve USD '000*	*Investment fair value reserve USD '000*	*Accumulated losses USD '000*	*Equity attributable to shareholders USD '000*	Subirdinated *mudharaba AT1 USD '000*	*Total Equity USD '000*
Balance at 1 January 2023		1,005	5,441	537	(23,258)	**(16,275)**	-	**(16,275)**
Subordinated Mudharaba (AT1)	19	-	-	-	-	**-**	22,803	**22,803**
Loss for the year		-	-	-	(5,535)	**(5,535)**	-	**(5,535)**
Transfer to statement of income on exit of investment		-	-	(537)	-	**(537)**	-	**(537)**
Subordinated Mudharaba (AT1) issuance cost		-	-	-	(459)	**(459)**	-	**(459)**
Fair value changes on equity-type investments at fair value through equity		-	-	45	-	**45**	-	**45**
Balance at 31 December 2023		**1,005**	**5,441**	**45**	**(29,252)**	**(22,761)**	**22,803**	**42**
Balance at 1 January 2022		190,000	5,859	1,008	(193,548)	3,319	-	3,319
Capital adjustment	19	(189,995)	(418)	-	190,413	-	-	-
Capital injection	19	1,000	-	-	-	1,000	-	1,000
Loss for the year		-	-	-	(20,123)	(20,123)	-	(20,123)
Fair value changes on equity-type investments at fair value through equity		-	-	(471)	-	(471)	-	(471)
Balance at 31 December 2022		1,005	5,441	537	(23,258)	(16,275)	-	(16,275)

The attached notes 1 to 39 are part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Note	***31 December 2023 USD '000***	*31 December 2022 USD '000*
OPERATING ACTIVITIES			
Net loss for the year		**(5,535)**	(20,123)
Adjustments for:			
Impairment of investments	8,9	**6,424**	7,304
Provision for credit losses		**(1,174)**	3,309
Reversal of impairment of property and equipment	16	**310**	(189)
Share of loss / (income) of associates and joint venture - net	9	**-**	108
Fair value losses / (gains) on investments carried at fair value through income - net	24	**3,480**	1,585
Loss on sale of investment - net	22	**187**	-
Depreciation	15,16	**380**	413
Finance cost on right-of-use asset	15	**177**	182
Dividend income	21	**(3)**	(668)
Operating gains / (losses) before changes in operating assets and liabilities		**4,246**	(8,079)
Changes in operating assets and liabilities:			
Investments		**(5,494)**	(5,209)
Receivables		**1,947**	4,583
Funding to project companies		**130**	15
Right-of-use asset	15	**-**	(538)
Property and equipment	16	**(72)**	(70)
Other assets		**57**	(749)
Proceeds from sale of investments		**1,362**	5,060
Employee accruals		**(236)**	(504)
Islamic finance		**(3,646)**	26
Ijarah liability	15	**-**	539
Other liabilities		**3,297**	5,827
Placements with financial institutions (maturity more than 3 months)		**(133)**	-
Net cash from operating activities		**1,458**	901
FINANCING ACTIVITIES			
Murabaha financing to investee companies		**-**	(1,796)
Capital injection by strategic investor	19	**-**	1,000
Cost of issuance of subordinated mudharaba (AT1)	19	**(459)**	-
Rent paid towards right-of-use asset	15	**(267)**	(266)
Net cash used in financing activities		**(726)**	(1,062)
Net increase / (decrease) in cash and cash equivalents		**732**	(161)
Cash and cash equivalents at beginning of the year		**2,861**	2,863
ECL (charged) / reversed on balances with banks		**(2)**	159
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**3,591**	2,861
Cash and cash equivalents per the consolidated statement of financial position			
Balances with banks	7	**2,116**	2,633
Short-term placements	7	**1,475**	228
		3,591	2,861

The attached notes 1 to 39 are part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

For the year ended 31 December 2023

31 December 2023

Audited	Balance as at 1 January 2023 USD '000	Movements during the year: Fair value movement / (impairment) USD '000	Other loss USD '000	Balance as at 31 December 2023 USD '000
GCC Pre IPO Fund	**120**	**4**	**1**	**125**

	31 December 2023 USD '000
Investment in equities	**77**
Receivables	**48**
Balances with banks	**-**
Total	**125**

31 December 2022

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

	31 December 2022 USD '000
Investment in equities	76
Receivables	44
Total	120

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

1 REPORTING ENTITY

Incorporation

Esterad Bank B.S.C (c) (formerly known as Venture Capital Bank B.S.C. (c)) (hereafter referred to as “the Bank”) was incorporated in the Kingdom of Bahrain on 26 September 2005 as a closed shareholding company under commercial registration (CR) number 58222 issued by the Ministry of Industry and Commerce ("MOIC"). The Bank is licensed as a wholesale Islamic bank by the Central Bank of Bahrain (“CBB”) and is subject to the regulations and supervision of the CBB. The Bank's registered office is 302, Building 1411, Road 4626, Block 317, Sea Front, Manama, Kingdom of Bahrain.

The Bank is currently 99.5% owned by Esterad Investment Company B.S.C (c) (hereafter referred to as “EIC”), a Bahraini public joint stock company listed in Bahrain Bourse. EIC does not have control over the relevant activities of the Bank as the Bank’s operations are currently subject to restrictions imposed by the regulator due to capital deficiencies.

These consolidated financial statements were approved by the Bank's Board of Directors on 25 June 2024.

Activities

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

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the year ended 31 December 2023. The financial statements of the subsidiaries are prepared using the same annual reporting period ending on 31 December, using consistent accounting policies.

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

Name of subsidiary	Year of incorporation	% holding	Country of incorporation	Principal activities
Gulf Projects Company W.L.L.	1998	100%	Kingdom of Bahrain	To own an interest in and operate the Venture Capital Bank car park building.
The Lounge Serviced Offices Company W.L.L.	2007	100%	Kingdom of Bahrain	To own, operate and manage serviced offices in Bahrain and regionally.
GMCB Co. W.L.L. *	2008	54.06%	Kingdom of Bahrain	To invest in a medical facility in the Kingdom of Bahrain. The Group aquired control of the entity in June 2018.
VCB Investment Advisors LTD	2006	100%	Cayman Island	A special purpose vehicle incorporated in Cayman Island for collection of management fees - Dormant entity.
VCB AT1 Sukuk Ltd	2023	100%	Cayman Island	A special purpose vehicle incorporated for the issuance of the Subordinated Mudharaba (AT1).

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

The unconsolidated subsidiary classified under Investments held for sale has a carrying value of USD NIL (31 December 2022: USD NIL)

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

On 15 February 2024, an EGM of the shareholders was held, where the shareholders resolved to change the name of the Bank from Venture Capital Bank B.S.C (c) to Esterad Bank B.S.C (c).

2 FUNDAMENTAL ACCOUNTING ASSUMPTION

Going concern assessment

The Group incurred a net loss of USD 5,535 thousand during the year and, as of 31 December 2023, the Group had negative equity attributable to shareholders of USD 22,761 thousand. The Group issued Subordinated Mudharaba (AT1) of USD 22,803 thousand. The total equity of the Group as of 31 December 2023 was USD 42 thousand, having accumulated losses of USD 29,252 thousand and total liabilities with maturity up to 12 months exceeded its total assets with the same maturity representing a net liquidity gap of USD 9,394 thousand.

During the year, the Bank continues to be in breach of a number of regulatory requirements including minimum capital adequacy ratios. These conditions indicate the Group is not a going concern.

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

(i) The acquisition of the Bank by EIC will enable the Group to continue as a going concern and to negotiate settlement of its obligations to third parties as and when they fall due. Additionally, the shareholders or the regulators did not have any intention to liquidate the Bank, and intend to revive the business model to operate on a Going concern basis.

(ii) In an effort to meet minimum capital requirements, the Group issued Subordinated Mudharaba AT1 (Additional Tier 1 Capital Sukuk "Sukuk") to its existing investors upon obtaining the necessary regulatory approvals. The sukuk were issued in exchange liabilities owed by the Group and for investments managed by the Bank where these investors were participants. The investments swapped were valued at 80% of the fair value of the investments and the group recorded a profit of USD 4,503 thousand during the year.

The Group issued Sukuks amounting to USD 23 million as of the date of this statement of financial position, and a total of USD 24 million as of the date of signing.

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

(iv) With the improved performance of certain investments, the Bank has resumed collecting management fees. The Bank has also successfully listed 2 of its portfolio investments in Turkey, which will generate additional liquidity at the time of exit. Management expects to generate sufficient liquidity in the short term to cover ongoing operating costs and provide funding to support its restructuring plan and meet its near-term obligations.

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

Regulatory non-compliance

The Bank did not comply with the CBB's capital requirements for minimum shareholders' equity, total CAR, Tier 1 and CET 1 CAR, NSFR, LCR, and other associated regulated requirements which are required for Bahrani Islamic wholesale bank during the year ended 31 December 2023. The Bank is also not in compliance with other regulatory requirements by the CBB and the Commercial Companies Law ("CCL").

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

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

3 BASIS OF PREPARATION

3.1 Basis of preparation

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

3.2 Basis of measurement

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

3.3 New standards, amendments, and interpretations effective for annual periods beginning on or after 1 January 2023

The following new standards and amendments to standards are effective for financial years beginning on or after 1 January 2023 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. 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).

An institution obliged to pay Zakah by law or by virtue of its constitution documents shall recognise current Zakah due for the period as an expense in its financial statements. Where Zakah is not required to be paid by law or by virtue of its constitution documents, and where the institution is considered as an agent to pay Zakah on behalf of certain stakeholders, any amount paid in respect of Zakah shall be adjusted with the equity of the relevant stakeholders.

The Group does not have any obligation to pay Zakah as per its constitutional documents but only pays Zakah on undistributed profits as an agent on behalf of its shareholders. The Group has adopted this standard and has provided the necessary additional disclosures in its annual financial statements (refer notes 30).

(ii) 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 is also applicable to the institutions which prepare a complete set of financial statements at interim reporting dates in line with the respective FAS’s.

This standard is effective for financial statements for the period beginning on or after 1 January 2023. The Group has adopted this standard for the basis of preparation of its condensed consolidated interim financial information. The adoption of this standard did not have any significant impact on the Group’s interim financial information.

3 BASIS OF PREPARATION (continued)

3.3 New standards, amendments, and interpretations effective for annual periods beginning on or after 1 January 2023 (continued)

(ii) FAS 44 Determining Control of Assets and Business

AAOIFI has issued FAS 44 "Determining Control of Assets and Business" on 31 December 2023, applicable with immediate effect. The objective of this standard is to establish clear and consistent principles for assessing whether and when an institution controls an asset or a business, both in the context of participatory structures and for consolidation purposes.

This standard is applicable to all Islamic financial institutions (“IFIs”) and entities who are party to the Sharia compliant transactions and structures (as allowed by the respective regulatory and reporting framework). This standard covers both on-balance sheet and off-balance sheet arrangements, including participatory structures like mudaraba, musharaka, and sukuk. The assessment of control is relevant across various accounting policies of the Group, including but not limited to consolidation of subsidiaries, recognition and de-recognition of various financial assets and participatory investment structures.

The Group has assessed the revised framework for control assessment provided by FAS 44 and does not expect any significant impact on its previously assessed control conclusions on the adoption of this standard. However, the Groups accounting policies and disclosures have been revised to be consistent with the revised definitions and principles clarified under FAS 44.

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

i) 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.

3 BASIS OF PREPARATION (continued)

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

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.

ii) FAS 45: Quasi-Equity (Including Investment Accounts)

AAOIFI has issued Financial Accounting Standard (FAS) 45 "Quasi-Equity (Including Investment Accounts)" during 2023. The objective of this standard is to establish the principles for identifying, measuring, and presenting "quasi-equity" instruments in the financial statements of Islamic Financial Institutions “IFIs”.

The standard prescribes the principles of financial reporting to participatory investment instruments (including investment accounts) in which an IFI controls underlying assets (mostly, as working partner), on behalf of the stakeholders other than owner’s equity. This standard provides the overall criteria for on-balance sheet accounting for participatory investment instruments and quasi-equity, as well as, pooling, recognition, derecognition, measurement, presentation and disclosure for quasi-equity.

This standard shall be effective for the financial reporting periods beginning on or after 1 January 2026 with an option to early adopt. The Group does not expect any significant impact on the adoption of this standard.

iii) FAS 46: Off-Balance-Sheet Assets Under Management

AAOIFI has issued Financial Accounting Standard (“FAS”) 46 "Off-Balance-Sheet Assets Under Management" during 2023. The objective of this standard is to establish principles and rules for recognition, measurement, disclosure, and derecognition of off-balance-sheet assets under management, based on Shari’a and international best practices. The standard aims to improve transparency, comparability, accountability, and governance of financial reporting related to off-balance-sheet assets under management.

This standard is applicable to all IFIs with fiduciary responsibilities over asset(s) without control, except for the following:

- The participants’ Takaful fund and / or participants’ investment fund of a Takaful institution; and
- An investment fund managed by an institution, being a separate legal entity, which is subject to financial reporting in line with the requirements of the respective AAOIFI FAS.

This standard shall be effective for the financial reporting periods beginning on or after 1 January 2026 with an option to early adopt. This standard shall be adopted at the same time as adoption of FAS 45 “Quasi-Equity (Including Investment Accounts)”. The Group does not expect any significant impact on the adoption of this standard.

iv) FAS 47: Transfer of Assets Between Investment Pools

AAOIFI has issued Financial Accounting Standard (“FAS”) 47 "Transfer of Assets Between Investment Pools" during 2023. The objective of this standard is to establish guidance on the accounting treatment and disclosures for transfers of assets between investment pools that are managed by the same institution or its related parties. The standard applies to transfers of assets that are not part of a business combination, a disposal of a business, or a restructuring of an institution.

The standard defines an investment pool as a group of assets that are managed together to achieve a common investment objective, such as a fund, a portfolio, or a trust. The standard also defines a transfer of assets as a transaction or event that results in a change in the legal ownership or economic substance of the assets, such as a sale, a contribution, a distribution, or a reclassification.

The transfer of assets between investment pools should be accounted for based on the substance of the transaction and the terms and conditions of the transfer agreement. The standard classifies transfers of assets into three categories: transfers at fair value, transfers at carrying amount, and transfers at other than fair value or carrying amount. The standard also specifies the disclosure requirements for transfers of assets between investment pools.

This standard shall be effective for the financial periods beginning on or after 1 January 2026 with an option to early adoption. The Group does not expect any significant impact on the adoption of this standard.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

The most significant judgements and estimates are discussed below:

Going concern assessment

These consolidated financial statements for the year ended 31 December 2023 have been prepared on a Going concern basis, (refer to note 2).

Classification of investments

Management decides whether an acquisition of a financial asset should be classified as an "equity-type investment at fair value through income" or "equity-type investment at fair value through equity". The classification of each investment reflects the management's intention or business model in relation to each investment and is subject to different accounting treatments based on such classification.

Fair value of financial instruments

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

The details of estimates and related sensitivity analysis are disclosed in notes 38.

Impairment on assets carried at amortised cost

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

Impairment of equity-type investments at fair value through equity

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

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

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Consolidation of special purpose entities (SPEs)

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

Recognition and measurement of provision and contingencies

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. The Group controls a business if, and only if, it has a) power over the business b) exposure, or rights, to variable returns from its involvement with the business; and c) the ability to use its power over the business to affect the amount of the institution’s returns.

Power is presumed when an entity directly, or indirectly through its subsidiaries, holds more than 50% of the voting rights. Where the Group has less than majority voting rights, control may exist through a) agreement with other shareholders or the business itself; b) rights arising from other contractual arrangements; c) the institution’s voting rights (de facto power); d) potential voting rights; or e) a combination thereof.

The Group considers only substantive voting rights in its assessment of whether it has power over a business. In order to be substantive, rights need to be exercisable when relevant decisions are required to be made and the holder of such rights must have the practical ability to exercise those rights. When making an assessment of whether the Group controls a business, it considers the voting and other rights emanating from the investment in the business duly funded by the Group itself and its equity of investment accountholders.

(ii) Non-controlling interests (NCI)

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

• Fair value at the date of acquisition, which means that goodwill, or the gain on a bargain purchase, includes a portion attributable to ordinary non-controlling interests; or

• the holders’ proportionate interest in the recognised amount of the identifiable net assets of the acquire, which means that goodwill recognised, or the gain on a bargain purchase, relates only to the controlling interest acquired.

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

(iii) Special purpose entities

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.

The Group in its ordinary course of business may manage an asset or a business for the benefit of stakeholders other than its equity holders through an agency (usually investment agency) or similar arrangement. Control does not include situations whereby the institution has the power, but such power is exercisable in a fiduciary capacity, and not for the variable returns to the institution itself. Performance incentives receivable by an agent are in a fiduciary capacity, and hence not considered to be variable returns for the purpose of control assessment

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

(iv) Loss of control

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

(v) Equity accounted investees

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

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

(vi) Transactions eliminated on consolidation and equity accounting

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign currency transactions

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Group companies

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

(c) Financial assets and liabilities

(i) Recognition and de-recognition

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

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

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

(i) the right to receive cash flows from the asset has expired;

(ii) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

(iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial assets and liabilities (continued)

(i) Recognition and de-recognition
The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(ii) Classification of financial assets and liabilities
The Group classifies financial assets under the following categories: financial assets at fair value through income, receivables at amortised cost or financial assets at fair value through equity. All of the financial liabilities of the Group are classified at amortised cost. Management determines the classification of its financial instruments at initial recognition.

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

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

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

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

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

The Group designates equity-type investments at fair value through income at inception only when it is managed, evaluated and reported internally on a fair value basis. These include certain private equity investments, including investments in certain associates and joint ventures. These investments are fair valued through income unless the Group makes an irrevocable classification choice at initial recognition to classify this as an investment at fair value through equity.

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Investments (continued)

(iii) Subsequent measurement

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

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

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

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

(iv) Fair value measurement principles

Amortised cost measurement

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

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

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

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analyses, price / earnings multiples and other valuation models with accepted economic methodologies for pricing financial instruments.

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

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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment of financial assets

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

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

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

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

The Group assumes that the credit risk on exposure subject to credit risk increased significantly if it is more than 30 days past due. The Group considers an exposure subject to credit risk to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security, if any is held; or
- the exposure is more than 90 days past due.

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

Stage 1: 12-months ECL

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

Stage 2: Lifetime ECL - not credit impaired

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

Stage 3: Lifetime ECL - credit impaired

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

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- Exposures subject to credit risk that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);

- Exposures subject to credit risk that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

- Undrawn financing commitment: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive;

- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover; and

- ECLs are discounted at the effective profit rate of the exposure subject to credit risk.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment of financial assets (continued)

Credit-impaired exposures

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

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

Presentation of allowance for ECL in the statement of financial position

Loss allowances for exposures subject to credit risk are deducted from the gross carrying amount of the assets.

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

Measurement of ECL

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

Given that the Group is not in the business of extending loans and financing, the Group's ECL provisioning approach is based on a detailed evaluation of all its individual exposures together with a provisioning matrix reflecting the expected credit losses for non-impaired exposures using the practical expedient under FAS 30.

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

Definition of default

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

Probability of default ("PD")

Types of PDs used for ECL computation

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

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

Incorporation of forward - looking information

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

Loss Given Default ("LGD")

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment of financial assets (continued)

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

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

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

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

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

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

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

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

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

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

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

5 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

(h) Property and equipment (continued)

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

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

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

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

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

(i) Impairment of non-financial assets

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

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

(j) Islamic financing payable

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

(k) Financial guarantees

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

(l) Dividends

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Share capital and statutory reserve

Share capital
The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Equity instruments of the group comprise ordinary shares and equity component of share-based payments and convertible instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Subordinated Mudharaba (AT1)
Subordinated Mudharaba (AT1) represents perpetual Sukuk, which constitute a subordinated and unsecured Mudaraba arrangement between the Sukuk holders and the Bank. The Sukuk holders have precedence over the Bank's ordinary shareholders, only in terms of liens over Net Assets, and distributions. The Sukuks are classified and recognized in equity (net of all related issuance costs).

Statutory reserve
The Commercial Companies Law requires that 10 percent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital. Appropriation to statutory reserve is made when approved by the shareholders.

(n) Revenue recognition

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

Management Fees and other fees represents deal related income earned by the Group from structuring, managing and exiting assets and products on behalf of investors. This income is recognised by the Group when the associated service is provided and funds are received by the Group. Other Fees include, but are not limited to account servicing fees, sales commission, placement and arrangement fees, structuring fees and syndication fees.

Other investment income *represents income received from dividends declared on investment projects, finance income and profits earned on short term liquidity certificates.*

Finance income *are income received on islamic placements with financial institutions* and are recognised upon maturity of the deal.

Dividend income is recognised when the right to receive is established and the amount of dividend earned has been received by the Group.

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

(o) *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.

5 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

(p) Employee benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

(ii) Post employment benefits

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organisation scheme, which is a “defined contribution scheme” in nature under, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Bank are recognised as an expense in consolidated income statement when they are due.

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

(q) Provisions

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

(r) Segment reporting

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

(s) Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 issued by AAOIFI using the net assets method. Zakah is paid by the Group based on the consolidated figures of statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on equity of investment account holders and other accounts is the responsibility of investment account holders. Zakah per share amount is presented in note 30.

(t) Offsetting financial instruments

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

(u) Trade and settlement date accounting

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

6 CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

At 31 December 2023

	Equity-type at fair value through income USD '000	***Equity-type at fair value through equity USD '000***	***Amortised cost USD '000***	***Total USD '000***
ASSETS				
Balances with banks	**-**	**-**	**2,116**	**2,116**
Placements with financial institutions			**1,608**	**1,608**
Investments	**20,967**	**5,017**	**-**	**25,984**
Funding to project companies	**-**	**-**	**2,242**	**2,242**
Other assets	**-**	**-**	**1,105**	**1,105**
TOTAL FINANCIAL ASSETS	**20,967**	**5,017**	**7,071**	**33,055**
LIABILITIES				
Other liabilities	**-**	**-**	**14,768**	**14,768**
TOTAL FINANCIAL LIABILITIES	**-**	**-**	**14,768**	**14,768**
OFF BALANCE SHEET ITEMS				
Equity of investment account holders	**-**	**77**	**48**	**125**

At 31 December 2022

	Equity-type at fair value through income USD '000	*Equity-type at fair value through equity USD '000*	*Amortised cost USD '000*	*Total USD '000*
ASSETS				
Balances with banks	-	-	2,633	2,633
Investments	11,480	7,770	-	19,250
Receivables	-	-	781	781
Funding to project companies	-	-	2,283	2,283
Other assets	-	-	1,269	1,269
TOTAL FINANCIAL ASSETS	11,480	7,770	6,966	26,216
LIABILITIES				
Islamic finance	-	-	13,267	13,267
Other liabilities	-	-	13,944	13,944
TOTAL FINANCIAL LIABILITIES	-	-	27,211	27,211
OFF BALANCE SHEET ITEMS				
Equity of investment account holders	-	76	44	120

7 BALANCES WITH BANKS & PLACEMENTS WITH FINANCIAL INSTITUITIONS

	31 December 2023 USD '000	*31 December 2022 USD '000*
Bank current and call accounts	**2,121**	2,638
Less: ECL provision	**(5)**	(5)
	2,116	2,633
Wakala placements with financial institutions (more than 3 months)	**133**	228
Wakala placements with financial institutions (less than 3 months)	**1,023**	-
Mudharaba placements with financial institutions (less than 3 months)	**452**	-
	1,608	228
Total balances with banks and placements with financial institutions	**3,724**	2,861

8 INVESTMENTS

	31 December 2023 USD '000	*31 December 2022 USD '000*
Equity-type investments at fair value through income		
Quoted equities held for trading (note 8.1)	**6,853**	34
Unquoted equities	**5,419**	11,446
Short term liquidity certificates (8.3)	**8,695**	-
	20,967	11,480
Equity-type investments at fair value through equity		
Unquoted equities	**1,980**	3,219
Subordinated Mudaraba (note 8.2)	**-**	3,491
Short term liquidity certificates (8.3)	**3,037**	1,060
	5,017	7,770
Total investments - net	**25,984**	19,250

8.1 During the year, an investment with carrying value of USD 6,170 thousand was listed and hence transferred from unquoted equities to quoted equities held for trading. The unrealized loss recognised during the period was USD 1,127 thousand.

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

As part of the restructuring agreement the trust has a put option to oblige the Group to purchase the investments at fair value on settlement date. As of 31 December 2023, the Group has written off the Subordinated Mudaraba (31 December 2022: provision of USD 6,508 thousand).

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

8 *INVESTMENTS (continued)*

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

	31 December 2023 USD '000	*31 December 2022 USD '000*
Balance at 1 January	**23,979**	16,723
Adjustments in impairment provisions	**(7,546)**	-
Exit of investments	**(3,409)**	-
Charge for the year	**6,424**	7,256
Balance at 31 December	**19,448**	23,979

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

	31 December 2023 USD '000	*31 December 2022 USD '000*
Real estate projects	**15,608**	4,136
Private equity	**10,376**	15,114
	25,984	19,250

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

9 INVESTMENT IN AN ASSOCIATE

			% holding	
Name of associate	***Nature of business***	***Country of incorporation***	***31 December 2023***	*31 December 2022*
Venture Capital Fund Bahrain	Small & medium enterprises investment fund	Kingdom of Bahrain	**30**	30

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

	31 December 2023 USD '000	*31 December 2022 USD '000*
Total assets	**543**	840
Total liabilities	**374**	336
Total revenues for the year	**-**	1

The total assets, liabilities and revenues of the associate is based on unaudited management accounts as of 31 December 2023 and 2022.

10 MURABAHA FINANCING TO INVESTEE COMPANIES

	31 December 2023 USD '000	*31 December 2022 USD '000*
Financing to investee companies in the following sectors:		
Manufacturing	**6,064**	3,140
Real estate	**359**	359
	6,423	3,499
Less: ECL provision	**(6,423)**	(3,499)
At 31 December	**-**	-

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

Balance at 1 January	**(3,499)**	(1,703)
Impairment charge during the year	**(2,924)**	(1,796)
Balance at 31 December	**(6,423)**	(3,499)

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

11 WAKALA CONTRACT RECEIVABLE

Wakala contract receivable represents USD 13,341 thousand of short-term trade finance deals placed with Trade Finance Corporation ("TFC") through a locally incorporated bank ("Wakil") at an expected profit rate of 6.5% per annum with maturities ranging between 90 to 150 days. The Group has recognised an ECL of 100% on the wakala under stage 3 (31 December 2022: 100%).

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

12 RECEIVABLES

	31 December 2023 USD '000	*31 December 2022 USD '000*
Receivable from investment banking services	**4,853**	6,770
Receivable on sale of investment	**-**	30
	4,853	6,800
Less: ECL provision	**(4,853)**	(6,019)
	-	781

The table below shows the movement in impairment provision during the year:		
At 1 January	**(6,019)**	(7,068)
Reversal of provision for expected credit losses	**1,166**	519
Written-off during the year	**-**	530
At 31 December	**(4,853)**	(6,019)

13 FUNDING TO PROJECT COMPANIES

	31 December 2023 USD '000	*31 December 2022 USD '000*
Gross funding	**4,263**	4,393
Less: ECL provision	**(2,021)**	(2,110)
	2,242	2,283

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

	31 December 2023 USD '000	*31 December 2022 USD '000*
At 1 January	**2,110**	2,118
(Reversal of) / provision for expected credit losses	**(89)**	(8)
At 31 December	**2,021**	2,110

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

14 OTHER ASSETS

	31 December 2023 USD '000	*31 December 2022 USD '000*
Advances to acquire investments	**6,295**	6,295
Project costs recoverable	**3,554**	3,484
Dividend receivable	**444**	444
Other receivables	**1,468**	1,660
Prepayment	**88**	61
	11,849	11,944
Less: ECL provision	**(10,656)**	(10,614)
	1,193	1,330

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

At 1 January	**10,614**	10,495
Impairment charged	**42**	177
Written-off during the year	**-**	(58)
At 31 December	**10,656**	10,614

15 RIGHT-OF-USE ASSET / IJARAH LIABILITY

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

	Right-of- use asset USD' 000	***Ijarah liability USD' 000***
As at 1 January 2022	3,090	3,247
Lease adjustments	538	539
Depreciation	(151)	-
Finance cost	-	182
Rent paid	-	(266)
As at 31 December 2022	3,477	3,702
Depreciation	(151)	-
Finance cost	-	177
Rent paid	-	(267)
As at 31 December 2023	**3,326**	**3,612**

	31 December 2023 USD '000	*31 December 2022 USD '000*
Right-of-use asset		
Non-current	**3,326**	3,477
As at 31 December	**3,326**	3,477
Ijarah liability		
Current	**93**	89
Non-current	**3,519**	3,613
As at 31 December	**3,612**	3,702
Ijarah liability		
Gross ijarah liability	**5,965**	5,965
Deferred cost on ijarah liability	**(2,353)**	(2,263)
	3,612	3,702

16 PROPERTY AND EQUIPMENT

	*Building ** *USD '000*	*Office equipment* *USD '000*	*Furniture and fixtures* *USD '000*	*Motor vehicles* *USD '000*	*Total* *USD '000*
Cost					
At 1 January 2023	10,098	1,800	4,866	496	17,260
Additions during the year	-	-	22	52	74
At 31 December 2023	**10,098**	**1,800**	**4,888**	**548**	**17,334**
Depreciation					
At 1 January 2023	3,774	1,769	4,695	496	10,734
Charge for the year	182	22	25	-	229
At 31 December 2023	**3,956**	**1,791**	**4,720**	**496**	**10,963**
Impairment					
At 1 January 2023	2,062	-	-	-	2,062
Impairment during the year	310	-	-	-	310
Net book value at 31 December 2023	**3,770**	**9**	**168**	**52**	**3,999**
Net book value at 31 December 2022	4,262	34	170	-	4,466

* This includes 15.38% stake of the Venture Capital building, situated in the capital city of the Kingdom of Bahrain.

17 ISLAMIC FINANCE

	Note	***31 December 2023*** ***USD '000***	*31 December 2022* *USD '000*
Wakala payable to financial institution	17.1	**-**	13,267
		-	13,267

17.1 The Bank underwent a legal case to net off the payable amount to a local bank against the Wakala contract receivable (note 11). On 20 May 2021, the BCDR issued a judgement based on which the Bank has been ordered to pay USD 13,391 thousand principal, late payment charges of USD 1,600 thousand, and arbitration costs of USD 789 thousand and a daily penalty of USD 1,375 from the date of the judgement.

On 19 September 2022, the Bank entered into a settlement agreement with the above creditor to restructure it's obligations. Out of the USD 13 million, a portion of the amount was settled in kind and for the balance, Sukuks for a value of USD 9.6 million was issued.

18 OTHER LIABILITIES

	31 December 2023 USD '000	*31 December 2022 USD '000*
Payable under settlement agreement **	**9,292**	8,274
Provisions and accruals	**8,180**	9,204
Provision against guarantees *	**7,154**	10,077
Payable to related party ***	**6,385**	-
Accounts payable	**5,476**	5,670
Deferred income	**33**	33
Other	**37**	3
	36,557	33,261

* Guarantees relate to corporate guarantees provided by the Group to various creditors to support financing to one of its project companies. The Group received certain legal claims from creditors for which the Group is currently assessing its legal position and a defense strategy. Management has found it prudent to recognise provisions against such claims (refer note 36).

** Amount payable under settlement agreement represents past due profits on Islamic financing payable settled as of 30 June 2021. This amount is due on 30 June 2025. During the year, the total liability towards this creditor increased when the group acquired certain investments owned by them.

*** During the year, the Group entered into an Investment Management and Revenue Sharing Agreement with the major shareholder in order to improve the quality of the assets under management and maximise the the generation of revenue.

19 SHARE CAPITAL

	31 December 2023 USD '000	*31 December 2022 USD '000*
Authorised: 10,000,000 (31 December 2022: 10,000,000) ordinary shares of USD 1 each	**10,000**	10,000
Issued and fully paid up: 1,005,000 shares of USD 1 each (31 December 2022: 1,005,000 shares of USD 1 each)	**1,005**	1,005

On 21 April 2022, the shareholders in their Extraordinary General Meeting, resolved to adjust accumulated losses of USD 190,413 thousand against statutory reserve of USD 418 thousand and balance USD 189,995 thousand against paid-up capital. As a result, paid-up capital reduced to USD 5 thousand. Additionally, the EGM also resolved to introduce a strategic investor, Esterad Investment Company B.S.C(c), as a new shareholder with a contribution of USD 1 million as paid-up capital and resulting in acquiring 99.50% ownership of the Group. On 7 November 2022, the capital reduction and introduction of the new shareholder was approved by the MOIC.

The EGM further resolved to reduce the Authorised capital of the Bank from USD 500 million to USD 10 million.

SUBORDINATED MUDHARABA (AT1)

The Bank issued Subordinated Mudharaba (AT1) {Additional Tier 1 Sukuk (“Sukuk”)} of USD 23 million, under an approval form the Central Bank of Bahrain. These perpetual Sukuk constitute a subordinated and unsecured Mudaraba arrangement between the Sukuk holders and the Bank. The Sukuk have precedence over only the Bank’s ordinary shareholders in terms of liens over Net Assets, and distributions. The Sukuk are recognized in Owners’ equity (net of all related Issuance costs).

19 SHARE CAPITAL (continued)

SUBORDINATED MUDHARABA (AT1) (continued)

Issuance costs of USD 459 thousand have been adjusted against equity.

The Sukuk were issued by the Bank to:

- Certain creditors of the Bank (each a “Counterparty”), where the obligation of the Counterparty to pay the subscription price of the Sukuk was completely set off against the obligation of the Bank to pay the relevant certain Outstanding Amounts owed to that Counterparty and the Bank’s AT1 Capital increased accordingly.

- Certain Investors of the Bank (each an “Investor Counterparty”), where the obligation of the Investor Counterparty to pay the subscription price of the Sukuk was completely set off by the transfer of the title to certain investments owned by the Investor Counterparty and managed by the Bank, to the Bank.

The Sukuk carry a non-cumulative discretionary coupon of 6% of the nominal value of the Sukuk (the “coupon”), of which 4% will be partly paid in cash or in- kind, and the balance capitalized, at the option of the Bank on a semiannual basis. This is however subject to the Bank having a distributable funds available which include positive retained earnings and profits (excluding accumulated losses preceding the issuance of sukuk certificate). Profits paid to holders of the Sukuk are accounted for as an appropriation of profits when declared and distributed.

Movement in the retained earnings post issuance of the Sukuk is as below:

	31 December 2023 ***USD '000***
Opening accumulated losses	(23,258)
Losses attributable to the period prior to issuance of AT1	(9,938)
Accumulated losses prior to issuance of AT1	(33,196)
Profits recognised post issuance of AT1	4,403
Adjustment of cost on issuance of AT1	(459)
Profit available for distribution to AT1 holders	3,944
Accumulated losses post issuance of AT1	**(29,252)**

Statutory reserve

The CCL and the Bank’s articles of association requires that 10% of the profit for the year shall be transferred to a statutory reserve. During the year, no transfers were made to statutory reserve due to losses incurred by the Group. The reserve is not distributable except in such circumstances as stipulated in the CCL and following the approval of the CBB.

Investment fair value reserve

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

20 MANAGEMENT FEE, NET

	31 December 2023 USD '000	*31 December 2022 USD '000*
Investment management fees - net	**9,102**	3,501
	9,102	3,501

Majority of the management fee received during the year represents fees due to the Bank relating to outstanding fees of the prior years. Out of the management fees recognised during the year, assets with a cost of USD 1.7 million (31 December 2022: nil) was received in kind. Management fee earned is net of USD 2,411 thousand, which is payable to a related party under a revenue sharing agreement entered into during the year (note 29).

21 OTHER INVESTMENT INCOME

	31 December 2023 USD '000	*31 December 2022 USD '000*
Dividend income	**3**	668
Profits from liquidity certificates	**72**	14
Finance income	**41**	1
	116	683

22 Loss on sale of investment - net

	31 December 2023 USD '000	*31 December 2022 USD '000*
Fair value reserve transferred to income statement	**537**	-
Loss recognised on sale / transfer of investment	**(724)**	-
	(187)	-

23 RENTAL AND OTHER INCOME

	31 December 2023 USD '000	*31 December 2022 USD '000*
Gain from liability and investment swaps (note 23.1 and 23.2)	**4,503**	-
Rental income	**1,336**	1,335
Reversals of other provisions no longer required	**92**	2,463
Recoveries of impaired receivables and investments	**-**	144
Others	**299**	221
	6,230	4,163

23.1 On 19 September 2022, the Bank entered into a settlement agreement to restructure it’s obligations at USD 13 million. During the year, the bank issued Subordinated Mudharaba (AT1) of $9.6 to settle the balance of wakala payable.

23.2 The Group issued Subordinated Mudharaba AT1 (Additional Tier 1 Capital Sukuks "Sukuks") to its existing investors upon obtaining the necessary regulatory approvals. The sukuks were issued in exchange for investments managed by the Bank where these investors were participants. The investments swapped were valued at 80% of the fair value of the investments (note 19).

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

	31 December 2023 USD '000	*31 December 2022 USD '000*
Trading securities - quoted	**9**	25
Investments designated at fair value through income	**(3,489)**	(1,610)
	(3,480)	(1,585)

25 STAFF COSTS

	31 December 2023 USD '000	*31 December 2022 USD '000*
Salaries and benefits	**2,869**	2,725
Social insurance expenses	**210**	131
Employee severance cost	**167**	-
Other staff expenses	**21**	43
	3,267	2,899

26 FINANCE EXPENSE

	31 December 2023 USD '000	*31 December 2022 USD '000*
Islamic financing payables	**50**	26
Ijarah liability	**177**	182
	227	208

27 IMPAIRMENT OF FINANCIAL ASSETS

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

	31 December 2023			
	Stage 1 USD '000	***Stage 2 USD '000***	***Stage 3 USD '000***	***Total USD '000***
Exposures subject to ECL				
Balances with banks	2,121	-	-	2,121
Wakala Placements with financial institutions	1,610	-	-	1,610
Murabaha financing to investee companies	-	-	6,423	6,423
Wakala contract receivable	-	-	13,341	13,341
Receivables	-	-	4,853	4,853
Funding to project companies	-	3,202	1,061	4,263
Other assets	115	1,366	10,368	11,849
	3,846	**4,568**	**36,046**	**44,460**
Off-balance-sheet guarantees and commitments	3,009	415	17,391	20,815
	6,855	**4,983**	**53,437**	**65,275**
Impairment provision				
- On-balance-sheet Assets	(7)	(1,854)	(35,440)	(37,301)
- Off-balance-sheet guarantees and commitments	(8)	(1)	-	(9)
	6,840	**3,128**	**17,997**	**27,965**

	31 December 2022			
	Stage 1 USD '000	*Stage 2 USD '000*	*Stage 3 USD '000*	*Total USD '000*
Exposures subject to ECL				
Balances with banks	2,484	154	-	2,638
Wakala Placements with financial institutions	228	-	-	228
Murabaha financing to investee companies	-	-	3,499	3,499
Wakala contract receivable	-	-	13,341	13,341
Receivables	-	30	6,770	6,800
Funding to project companies	-	3,262	1,131	4,393
Other assets	188	1,219	10,537	11,944
	2,900	4,665	35,278	42,843
Off-balance-sheet guarantees and commitments	3,009	415	16,524	19,948
	5,909	5,080	51,802	62,791
Impairment provision				
- On-balance-sheet Assets	(5)	(1,900)	(33,683)	(35,588)
- Off-balance-sheet guarantees and commitments	(8)	(1)	-	(9)
	5,896	3,179	18,119	27,194

28 OTHER EXPENSES

	31 December 2023 USD '000	*31 December 2022 USD '000*
Office expenses	**989**	1,070
Project management costs (note 28.1)	**794**	1,495
Provision for litigation and others (note 28.2)	**400**	8,644
Board of directors and Shari'a supervisory board fees and expenses	**324**	248
Service level cost reimbursements (note 29)	**110**	-
Publicity, conferences and promotion	**48**	88
Exchange loss	**3**	88
Other	**214**	111
	2,882	11,744

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

28.2 **Litigations and claims**

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

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

On 19 September 2022, the Bank entered into a settlement agreement with the above creditor to restructure it's obligations. Out of the USD 13 million, a portion of the amount was settled in kind, and the balance dues were settled through the issuance of Sukuk for a value of USD 9.6 million.

29 RELATED PARTY TRANSACTIONS AND BALANCES

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

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

The Group entered into an Investment Management and Revenue Sharing Agreement with the major shareholder in order to improve the quality of the assets under management and maximise the the generation of revenue (note 20).

29 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

31 December 2023	*Significant unconsolidated Investments at fair value through income USD '000*	*Associates USD '000*	*Board members/ key management personnel/ Shari'a board members/ external auditors USD '000*	*Significant shareholders / entities in which directors are interested USD '000*	*Total USD '000*
Assets					
Investments	-	-	-	723	**723**
Liabilities					
Employee accruals	-	-	124	-	**124**
Other liabilities	-	418	471	18,904	**19,793**
Fair value losses on investments carried at fair value through income	-	-	-	(222)	**(222)**
Share of management fees	-	-	-	(2,411)	**(2,411)**
Loss on settlement of liabilities *	-	-	-	(3,585)	**(3,585)**
Expenses					
Finance expense	-	-	-	(44)	**(44)**
Service level cost reimbursements	-	-	-	(110)	**(110)**
Legal and professional fees	-	-	(248)	-	**(248)**
Other expenses	(117)	-	(319)	(110)	**(546)**
Provision for credit losses	(2)	-	-	97	**95**

* The loss on settlement of liabilities represent expenses payable to a related party for the settlement of certain liabilities on behalf of the Bank.

29 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

29 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

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

Categories*

	31 December 2023		*31 December 2022*	
	Number of		*Number of*	
	Shares	***Directors***	*Shares*	*Directors*
Less than 1%	**-**	**-**	918	6
	-	**-**	918	6

Compensation of directors and key management personnel are as follows:

	31 December 2023 USD '000	*31 December 2022 USD '000*
Board of directors' attendance fees	**270**	175
Salaries and other short-term benefits	**598**	578
	868	753

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

Reimbursement of costs relating to the service level agreement entered into with a related party during the year amounted to USD 110 thousand (note 28).

Board of Directors' remuneration
No board remuneration was proposed for the years 2023 and 2022 except for the attendance fee.

30 ZAKAH

In accordance with the Articles of Association, the Bank is not required to collect or pay Zakah on behalf of its shareholders or its off-balance sheet equity accounts holders during the year ended 31 December 2023 and the prior period. Accordingly, a statement of sources and uses of Zakah Fund is not presented in the financial statements. However, the Bank is required to calculate and notify individual shareholders of their pro-rata share of Zakah on each share held in the Bank. Zakah payable by the shareholders is computed by the Bank based on the method prescribed by the Bank's Shari'a Supervisory Board. Zakah payable by the shareholders in respect of each share for the year ended 31 December 2023 is US cents nil for every share held (31 December 2022: US cents nil for every share held). Investors should be aware that the ultimate responsibility of calculating and paying the Zakah due on them is their sole responsibility.

31 EARNINGS PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means. There were no earnings from non-Islamic sources during the year (31 December 2022: nil).

32 SHARI'AH SUPERVISORY BOARD

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

33 MATURITY PROFILE

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

31 December 2023	*Up to 3 months*	*3 to 6 months*	*6 months to 1 year*	*Total up to 1 year*	*1 to 3 years*	*Over 3 years*	*No fixed maturity*	*Total*
	USD '000	*USD '000*	*USD '000*	*USD '000*	*USD '000*	*USD '000*	*USD '000*	*USD '000*
Assets								
Balances with banks	2,116	-	-	2,116	-	-	-	**2,116**
Placements with financial institutions	1,608	-	-	1,608	-	-	-	**1,608**
Investments	43	-	115	158	2,341	-	23,485	**25,984**
Funding to project companies	-	-	-	-	2,242	-	-	**2,242**
Other assets	-	2	512	514	635	44	-	**1,193**
Right-of-use asset	-	-	-	-	-	3,326	-	**3,326**
Property and equipment	-	-	-	-	-	3,999	-	**3,999**
Total assets	**3,767**	**2**	**627**	**4,396**	**5,218**	**7,369**	**23,485**	**40,468**
Liabilities								
Employee accruals	43	-	-	43	-	214	-	**257**
Ijarah liability	-	-	93	93	-	3,519	-	**3,612**
Other liabilities	323	5,863	7,468	13,654	22,814	89	-	**36,557**
Total liabilities	**366**	**5,863**	**7,561**	**13,790**	**22,814**	**3,822**	-	**40,426**
Net liquidity gap	**3,401**	**(5,861)**	**(6,934)**	**(9,394)**	**(17,596)**	**3,547**	**23,485**	**42**
Cumulative liquidity gap	**3,401**	**(2,460)**	**(9,394)**	**(9,394)**	**(26,990)**	**(23,443)**	**42**	**42**
Commitments and contingencies	-	-	**17,806**	**17,806**	**3,009**	**-**	**-**	**20,815**

33 MATURITY PROFILE (continued)

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

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

a) Industry sector

31 December 2023	***Trading and manufacturing USD '000***	***Banks and financial institutions USD '000***	***Real estate USD '000***	***Health care USD '000***	***Food and Technology USD '000***	***Oil and gas USD '000***	***Other USD '000***	***Total USD '000***
Assets								
Balances with banks	-	2,116	-	-	-	-	-	**2,116**
Placements with financial institutions	-	1,608	-	-	-	-	-	**1,608**
Investments	-	723	17,015	-	7,482	-	764	**25,984**
Funding to project companies	-	-	2,242	-	-	-	-	**2,242**
Other assets	-	-	657	-	198	-	338	**1,193**
Right-of-use asset	-	-	-	-	-	-	3,326	**3,326**
Property and equipment	-	-	3,770	-	-	-	229	**3,999**
Total assets	**-**	**4,447**	**23,684**	**-**	**7,680**	**-**	**4,657**	**40,468**
Liabilities								
Employee accruals	-	-	-	-	-	-	257	**257**
Ijarah liability	-	-	-	-	-	-	3,612	**3,612**
Other liabilities	6,451	3,227	6,927	694	8	-	19,250	**36,557**
Total liabilities	**6,451**	**3,227**	**6,927**	**694**	**8**	**-**	**23,119**	**40,426**
Commitments and contingencies	**17,806**	**-**	**-**	**-**	**-**	**-**	**3,009**	**20,815**
Equity of investment account holders	**-**	**48**	**-**	**-**	**-**	**-**	**77**	**125**

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

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

(b) Geographic region

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

31 December 2023	***GCC countries USD '000***	***Other MENA countries USD '000***	***Europe USD '000***	***Cayman Islands / Americas USD '000***	***Total USD '000***
Assets					
Balances with banks	2,116	-	-	-	**2,116**
Placements with financial institutions	1,608	-	-	-	**1,608**
Investments	18,738	7,131	115	-	**25,984**
Funding to project companies	2,242	-	-	-	**2,242**
Other assets	981	198	8	6	**1,193**
Right-of-use asset	3,326	-	-	-	**3,326**
Property and equipment	3,999	-	-	-	**3,999**
Total assets	**33,010**	**7,329**	**123**	**6**	**40,468**
Liabilities					
Employee accruals	257	-	-	-	**257**
Ijarah Liability	3,612	-	-	-	**3,612**
Other liabilities	29,921	6,460	176	-	**36,557**
Total liabilities	**33,790**	**6,460**	**176**	**-**	**40,426**
Commitments and contingencies	3,009	17,806	-	-	**20,815**
Equity of investment account holders	125	-	-	-	**125**

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

35 FIDUCIARY ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. The Bank has assessed the need for creating a liability in the books for any potential claim that may arise and has made adequate provisions as the Bank believes is required.

At the reporting date, the Group had assets under management of US$ 275 million (31 December 2022: US$ 330 million). During the period, the Group had charged management fees amounting to US$ 11,513 thousands (31 December 2022: US$ 3,501 thousands) to its assets under management.

36 COMMITMENTS AND CONTINGENCIES

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

	31 December 2023 USD '000	*31 December 2022 USD '000*
Letters of guarantee*	**20,815**	19,948
	20,815	19,948

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

* As at 31 December 2023, the Group has a provision amounting to USD 7,154 thousand (31 December 2022: 10,077 thousand) on the outstanding letters of guarantee (note 18).

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group as at 31 December 2023 due to the performance of any of its projects.

Litigations and claims

The Bank had issued a letter of guarantee to a certain investment company/project valued at 130% of the Bank's share in the company's outstanding obligation (including principal and accrued profits) of USD 17,390 thousand (31 December 2022: USD 16,524 thousand). In addition to the corporate guarantees, the investee company has also pledged its primary asset to the lender against these obligations. While the depreciated cost of the asset exceeds the outstanding obligation of the investee company, the fair value of the asset is difficult to be ascertained as currently there are no operations in the investee company due to current economic conditions.

37 RISK MANAGEMENT AND CAPITAL ADEQUACY

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

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

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

a) Credit risk

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

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

Credit-related commitments risks

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

Maximum exposure to credit risk

The maximum exposure of credit risk on the financial assets of the Group is the carrying value of the financial assets as at 31 December 2023.

37 *RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)*

a) Credit risk (continued)

Past due

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

Definition of default

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

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

	31 December 2023 USD '000	*31 December 2022 USD '000*
Murabaha financing to investee companies	**6,423**	3,499
Wakala contract receivable	**13,341**	13,341
Receivables	**4,853**	6,770
Funding to project companies	**1,061**	1,131
Other assets	**10,368**	10,537
Total	**36,046**	35,278

b) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group seeks to manage its concentration risk by establishing geographic and industry wise concentration limits. The geographical and industry wise distribution of assets and liabilities are set out in note 34.

At 31 December 2023, the total credit exposure to individual counterparties which comprised 10% or more of the Group's equity was USD 44 million relating to 21 counterparties (31 December 2022: USD 44 million relating to 22 counterparties).

c) Liquidity risk

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

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

37 *RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)*

c) Liquidity risk (continued)

	Gross undiscounted cash flows						
31 December 2023	***Up to 3 months USD '000***	***3 to 6 months USD '000***	***6 months to 1 year USD '000***	***1 to 3 years USD '000***	***Over 3 years USD '000***	***No Fixed Maturity USD '000***	***Total USD '000***
Liabilities							
Employee accruals	**43**	**-**	**-**	**-**	**214**	-	**257**
Ijarah liability	**-**	**-**	**93**	**-**	**3,519**	-	**3,612**
Other liabilities	**323**	**5,863**	**7,468**	**22,814**	**89**	-	**36,557**
Total financial liabilities	**366**	**5,863**	**7,561**	**22,814**	**3,822**	**-**	**40,426**
Commitments and contingencies	**-**	**-**	**17,806**	**3,009**	**-**	**-**	**20,815**
Equity of investment account holders	**48**	**-**	**-**	**77**	**-**	**-**	**125**

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

37 *RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)*

d) Market risk

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

(i) Profit rate risk

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

	31 December 2023	*31 December 2022*
Islamic financing payables	**6.00%**	6.00%

Sensitivity analysis

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

	Effect on consolidated statement of income	
	31 December 2023 USD '000	*31 December 2022 USD '000*
100 bps parallel increase / (decrease)		
Islamic financing payables	**-**	± 133

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

(ii) Currency risk

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

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

	31 December 2023 USD '000	*31 December 2022 USD '000*
Kuwaiti Dinars	**99**	70
Great Britain Pounds	**332**	-
Turkish Lira	**14,029**	22,865

37 *RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)*

d) Market risk (continued)

(ii) Currency risk (continued)

The table below indicates the currencies to which the Group had significant exposure at 31 December 2023 and 31 December 2022 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the US Dollar with all other variables held constant on the consolidated statement of income (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity. A negative amount on the table below represents a potential net reduction in the consolidated statements of income or equity, while a positive amount reflects a net potential increase.

		31 December 2023		*31 December 2022*	
	Change in currency rates	***Effect on income USD '000***	***Effect on equity USD '000***	*Effect on income USD '000*	*Effect on equity USD '000*
Kuwaiti Dinars	+10%	**10**	**10**	7	7
Great Britain Pounds	+10%	**33**	**33**	-	-
Turkish Lira	+10%	**1,403**	**1,403**	2,287	2,287
Kuwaiti Dinars	-10%	**(10)**	**(10)**	(7)	(7)
Great Britain Pounds	-10%	**(66)**	**(66)**	-	-
Turkish Lira	-10%	**(1,403)**	**(1,403)**	(2,287)	(2,287)

(iii) Other price risk

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

(iv) Equity price risk on quoted equities

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

	31 December 2023		*31 December 2022*	
	Effect on income USD '000	***Effect on equity USD '000***	*Effect on income USD '000*	*Effect on equity USD '000*
Trading Securities	**685**	**685**	3	3

e) Operational risk

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

37 *RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)*

f) Capital management

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

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

	31 December 2023 USD '000	*31 December 2022 USD '000*
Total risk weighted assets	**342,699**	399,134
CET1 capital	**(25,784)**	(18,612)
Additional Tier 1 capital	**5,140**	-
Tier 2 capital	**995**	1,914
Total regulatory capital	**(19,649)**	(16,698)
Total regulatory capital expressed as a percentage of total risk weighted assets	**-5.73%**	-4.18%
Minimum requirement	**12.5%**	12.5%

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

Additional Tier 1 comprise the Subordinated mudharaba Sukuk issued by the Bank, which meet the criteria of AT1 and is perpetual with a loss absorbing / conversion feature.

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

Total CAR amounting (6.26)% as of 31 December 2022, is in breach of the minimum requirement of 12.5% as prescribed under CA-2.2.1 of Volume 2 of the CBB rule book.

Tier 1 and CET1 CAR of (6.56)%, which is in breach of the minimum requirement of 10.5% as prescribed under CA-2.2.1 of Volume 2 of the CBB rule book.

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

38 FAIR VALUE

Fair value
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 2023 and 31 December 2022, the fair value of bank balances, placements with financial institutions, other financial assets, placements from financial and other institutions and other financial liabilities are not expected to be materially different from their carrying values as these are short term in nature and are re-priced frequently to market rates, where applicable. Investment securities carried at fair value through income statement are carried at their fair values determined using quoted market prices and internal valuation models.

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

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. as derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data; and

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted market prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

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

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

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

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

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

38 *FAIR VALUE (continued)*

31 December 2023	**Level 1**	**Level 2**	**Level 3**	**Total**
	USD '000	**USD '000**	**USD '000**	**USD '000**
Investment securities carried at:				
- fair value through income statement	6,811	42	14,114	**20,967**
- fair value throughequity	-	-	5,017	**5,017**
	6,811	**42**	**19,131**	**25,984**

31 December 2022	Level 1	Level 2	Level 3	Total
	USD '000	USD '000	USD '000	USD '000
Investment securities carried at:				
- fair value through income statement	-	34	11,446	11,480
- fair value	-	-	7,770	7,770
	-	34	19,216	19,250

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets:

	31 December 2023	*31 December 2022*
	USD 000	*USD 000*
At 1 January	**19,216**	27,673
Fair value losses recognised in the consolidated statement of income	**(3,489)**	(1,610)
Impairment recognised during the year	**(6,424)**	(7,195)
Fair value reserve	**(492)**	(471)
Sale of investments during the year	**(4,552)**	(2,406)
Transfers from level 3 to level 1 *	**(6,811)**	-
Additions during the year	**5,264**	2,278
Investments received on sukuk issuance	**16,419**	947
At 31 December	**19,131**	19,216

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

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

38 *FAIR VALUE (continued)*

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

Profit or loss	***31 December 2023 USD 000***	*31 December 2022 USD 000*
WACC (1% increase)	(1,169)	(387)
Comparable transaction price (10% increase)	215	(84)
Non-marketability factor (10% increase)	(116)	14,490
Net asset value (10% increase)	225	728
At 31 December	**(845)**	14,747
WACC (1% decrease)	1,394	408
Comparable transaction price (10% decrease)	(215)	126
Non-marketability factor (10% decrease)	105	18,144
Net asset value (10% decrease)	(225)	(728)
At 31 December	**1,059**	17,950

39 SUBSEQUENT EVENTS

Subsequent to the year-end, as part of the overall restructuring of the Bank, an Extra-ordinary General Meeting of the shareholders was held on 15 February 2024, where the shareholders resolved to change the name of the Bank from Venture Capital Bank B.S.C (c) to Esterad Bank B.S.C (c).

Subsequent to the year-end, additional Sukuks were issued for USD 1.6 million, bringing the total issuance close to USD 24.5 million.