**Esterad Bank B.S.C. (c)**

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

**31 December 2025**

| | | |
|---|---|---|
| Commercial registration | : | 58222-1 (registered with Central Bank of Bahrain as an Islamic wholesale Bank) |
| Registered Office | : | Office 302, Building 1411<br>Road 4626, Block 346<br>Manama, Kingdom of Bahrain<br>Telephone: 17518888 |
| Directors | : | Bashar Mohamed Ebrahim Almutawa<br>Ahmed Abdulwahed Ahmed Abdulrahman<br>Isa Abdulrasool Abdulhusain Merza Jawahery<br>Fahad Yateem<br>Shaikh Ahmed Bin Isa Al Khalifa (effective: 15 July 2025) |
| Acting Chief Executive Officer | : | Ahmed Abdulwahed Ahmed Abdulrahman |
| Auditors | : | KPMG Fakhro |

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## CHAIRMAN'S REPORT

In the Name of Allah, the Most Beneficent, the Most Merciful. Prayers and peace be upon our Prophet Mohammed, his family, and his companions.

On behalf of the Board of Directors, I present the consolidated financial statements of Esterad Bank for the fiscal year ended 31 December 2025.

The year represented an important phase in Esterad Bank's transformation journey. During this period, the Bank advanced a series of difficult strategic decisions aimed at recalibrating its business model, reinforcing its institutional foundations, and establishing a more sustainable platform. Key priorities during the year included the repositioning of legacy investments, strengthening human capital capabilities, and enhancing internal policies, controls, and governance frameworks. While these actions carried short-term financial implications, they were essential to restoring discipline, transparency, and resilience across the organization.

As part of this transition, the Bank adopted a proactive approach to portfolio optimization, exiting a number of non-core and legacy investments. While these resulted in a near-term impact on performance, they were intentional and necessary to sharpen the Bank's strategic focus. This disciplined approach has enabled the Bank to refocus its efforts on identifying and executing opportunities aligned with its refined investment strategy, even amid a challenging operating environment. During the year, two funds were launched, the first fund completed a transaction in a prominent commercial real estate asset in the Kingdom of Bahrain. The transaction aligns with the bank's strategy to strengthen its income-generating real estate investment platform and expand its footprint across key operational sectors. The Second fund, a specialized healthcare fund, completed a transaction in a strategic investment in one of Bahrain's leading specialized ophthalmology centers. The investments, completed through the respective funds, underscore the Bank's emphasis on identifying defensible, cash-generating businesses for investors, with strong fundamentals and demonstrate a measured approach to securing investments in sectors offering sustainable, long-term value creation.

For the year ended 31 December 2025, the Bank recorded a net loss of USD 4.0 million, compared to a net profit of USD 2.5 million in the prior year. Total revenue amounted to USD 4.3 million versus USD 9.6 million in the previous year, largely attributable to a fair value loss of USD 5.3 million, compared to a fair value gain of USD 1.0 million in 2024. Operating expenses increased moderately to USD 8.6 million from USD 7.5 million, reflecting continued investment in people, systems, and governance infrastructure. Impairment reversals totaled USD 0.3 million, broadly consistent with the prior year.

Total assets declined from USD 30.1 million to USD 15.4 million, primarily as a result of strategic investment exits undertaken. In parallel, total liabilities decreased from USD 25.3 million to USD 15.1 million. Total equity stood at USD 0.3 million, compared to USD 4.8 million in the prior year. These figures reflect the balance sheet repositioning carried out during the year and the removal of legacy exposures, resulting in a more transparent and simplified financial position from which to progress.

With the continued efforts of management and close strategic alignment with Esterad Investment Company, the Board remains focused on exiting legacy investments and developing asset management activities to improve its financial position.

On behalf of the Board of Directors, I extend our sincere appreciation to His Majesty King Hamad bin Isa Al Khalifa and His Royal Highness Prince Salman bin Hamad Al Khalifa for their visionary leadership and continued support in advancing the Kingdom of Bahrain's financial and Islamic banking sector. We also acknowledge the Central Bank of Bahrain, the Ministry of Industry and Commerce, and other regulatory authorities for their guidance and constructive oversight.

I would like to extend my sincere appreciation to our shareholders, investors, clients, and business partners for their continued trust, engagement, and support throughout this period of transition. I am also grateful to the Sharia Supervisory Board for its valued guidance, and to our management team and employees for their dedication, resilience, and unwavering commitment to delivering the Bank's strategic priorities.

Looking ahead, the Board remains firmly focused on disciplined execution and prudent decision-making, as we continue to strengthen the Bank's foundations and position Esterad Bank confidently for its next phase of sustainable growth.

Finally, in accordance with the Commercial Companies Law No. (21) of 2001 and its amendments, and pursuant to Article (188) thereof, the remuneration details of the members of the Board of Directors and Executive Management for the fiscal year ended 31 December 2025 are presented in the attached section.

## First: Board of Directors' Remuneration Details:

| USD '000 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Name** | **Fixed remunerations** | | | | **Variable remunerations** | | | | **End-of-service award** | **Aggregate amount** (Does not include expense allowance) | **Expenses Allowance** |
| | Remunerations of the Chairman and Board | Total allowance for attending Board and committee meetings | Others | Total | Remunerations of the Chairman and Board | Incentive plans | Others | Total | | | |
| **Independent Directors:** | | | | | | | | | | | |
| Bashar Mohamed Ebrahim Almutawa | - | 130 | - | 130 | - | - | - | - | - | 130 | - |
| Isa Abdulrasool Abdulhusain Merza Jawahery | - | 75 | - | 75 | - | - | - | - | - | 75 | - |
| Fahad Yateem | - | 75 | - | 75 | - | - | - | - | - | 75 | - |
| **Non-Executive Directors:** | | | | | | | | | | | |
| Shaikh Ahmed Isa Al Khalifa | - | 14 | - | 14 | - | - | - | - | - | 14 | - |
| **Executive Directors:** | | | | | | | | | | | |
| Ahmed Abdulwahed Ahmed Abdulrahman | - | 30 | - | 30 | - | - | - | - | - | 30 | - |
| **Total** | **-** | **324** | **-** | **324** | **-** | **-** | **-** | **-** | **-** | **324** | **-** |

## Second: Executive management remuneration details:

| **Executive management** | **Total paid salaries and allowances** | **Total paid remuneration (Bonus)** | **Any other cash/ in kind remuneration for 2024** | **Aggregate Amount** |
|---|---|---|---|---|
| Remunerations for executives, including CEO and Senior Financial Officer | 674 | - | - | 674 |

Notes:
1. All amounts are in thousands of United States Dollars.
2. Top 6 remunerations for executives, including CEO* and Senior Financial Officer*

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**Bashar Almutawa**
**Chairman of the Board**

.....

**Ahmed Abdulrahman**
**Vice Chairman and**
**Acting Chief Executive Officer**

ESTERAD

***Date: 25 Feb 2026***

**In The Name of Allah, the Most Gracious, the Most Merciful.**

**Peace and Blessings Be Upon His Messenger**

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

***Assalamu Alaikum Wa Rahmatullahi Wa Barakatuh.***

## Shari'ah Supervisory Board Report for the Fiscal Year Ended 2025

In accordance with our appointment as the Shari'ah Supervisory Board ("SSB"), we hereby present this report:

During the fiscal year ending 31 December 2025, the SSB reviewed all investments, contracts, and agreements undertaken by the Bank. The SSB also reviewed and approved the Financial Statements. Our primary objective is to assess the compliance of these financial activities with the principles and rulings of Islamic Shari'ah, including issuing *fatwas* and related decisions.

The Bank's management is responsible for ensuring compliance with, and implementation of, the *fatwas* issued by the SSB. The SSB, in turn, independently monitors the Bank's investments, contracts, and agreements entered into during the fiscal year ended 31 December 2025.

### In Our Opinion:

1. Overall, we have determined that the Bank's contracts, transactions, and deals during the year ended of 31 December 2025, 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 Assets and Net Investment Assets 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. Any revenue from non-Shariah compliant sources during the fiscal year were segregated and purified by being disposed for charitable and benevolent purposes.

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

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.

| | | |
|---|---|---|
| Sh. Dr. Osama Bahar<br>Member | Sh. Dr. Nedham Yaqoobi<br>Chairman | Sh. Dr. Essa Zaki<br>Member |

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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*

## Report on the Audit of the Consolidated Financial Statements

### 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 2025, the consolidated statements of income, comprehensive income, changes in owner's equity, cash flows and changes in off-balance sheet assets under management 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 Group. 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.

In our opinion, the Group has also complied with the Islamic Shariah Principles and Rules as determined by the Group's Shariah Supervisory Board during the year ended 31 December 2025.

### Basis for Disclaimer of Opinion

1) We draw attention to note 2 to the consolidated financial statements, which describe that for the year ended 31 December 2025, the Group incurred a loss of USD 3,993 thousand and, as of that date, the Group had accumulated losses of USD 27,528 thousand resulting in negative equity attributable to owners of USD 26,274 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 consolidated financial statements is not appropriate. The 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) The Group manages certain investments in a fiduciary capacity. The Group was found to be non-compliant with certain regulatory requirements relating to the admission of certain investors, as well as other fiduciary responsibilities. While the management has remedied and settled some of these non-compliant positions, the Group remains exposed to potential claims in relation to these matters for which no provision has been recognised in the consolidated financial statements. Based on the current position of discussions and available evidence, we are unable to assess the amount and the timing of the settlement of these potential claims, if any. Consequently, we were unable to determine the adjustments that may be required to be made in the consolidated financial statements in relation to this matter.



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3) As disclosed in note 31 to the consolidated financial statements, the Group had issued corporate letters of guarantee to certain investee companies/projects. For one such investee, a creditor 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 20,439 thousand for which no provision has been recognised as at 31 December 2025. We were unable to determine the adjustments that may be required to be recorded in the consolidated financial statements in relation to this matter.

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

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

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

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

## Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our 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 and International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (together "the Code"), as applicable to the audits of the consolidated financial statements of public interest entities, together with the ethical requirements that are relevant to audits of the consolidated financial statements of public interest entities in the Kingdom of Bahrain. We have also fulfilled our other ethical responsibilities in accordance with these requirements and the Code.

## Report on Other Regulatory Requirements

As required by the Commercial Companies Law 2001 (as amended) and Volume 2 of the Central Bank of Bahrain (CBB) Rule Book, except for the matters described in the *Basis for Disclaimer 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 statements are in agreement therewith;
b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;
c) we are not aware of any 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 and 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 213
26 February 2026

# Esterad Bank B.S.C. (c)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2025

| | Note | ***31 December 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|---|
| **ASSETS** | | | |
| Balances with banks | 7 | **718** | 1,127 |
| Placements with banks | 7 | **2,794** | 650 |
| Investments | 8 | **1,870** | 17,127 |
| Funding to project companies | 11 | **-** | 1,939 |
| Right-of-use asset | 13 | **3,023** | 3,175 |
| Property and equipment | 14 | **3,797** | 3,874 |
| Other assets | 12 | **3,155** | 2,163 |
| **TOTAL ASSETS** | | **15,357** | 30,055 |
| **LIABILITIES** | | | |
| Employee accruals | 15 | **374** | 308 |
| Ijarah liability | 13 | **3,421** | 3,519 |
| Other liabilities | 16 | **11,315** | 21,460 |
| **TOTAL LIABILITIES** | | **15,110** | 25,287 |
| **EQUITY** | | | |
| Share capital | 17 | **1,005** | 1,005 |
| Statutory reserve | 17 | **249** | 249 |
| Accumulated losses | | **(27,528)** | (22,742) |
| **Equity attributable to owners** | | **(26,274)** | (21,488) |
| Subordinated Mudharaba (AT1) | 17 | **26,521** | 26,256 |
| Non-controlling interest | 1 | **-** | - |
| **TOTAL EQUITY** | | **247** | 4,768 |
| **TOTAL LIABILITIES AND EQUITY** | | **15,357** | 30,055 |

Bashar Mohamed Ebrahim Almutawa
Chairman

Ahmed Abdulwahed Ahmed Abdulrahman
Vice Chairman & Acting CEO

The attached notes 1 to 35 are part of these consolidated financial statements

# Esterad Bank B.S.C. (c)

## CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2025

| | Note | ***31 December 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|---|
| **REVENUE** | | | |
| Asset management fees | 18 | **6,809** | 5,390 |
| Net change in fair value of investments carried at fair value through the consolidated statement of income | | **(1,081)** | (146) |
| Net realised (loss) / gains on exit of investments | | **(4,192)** | 1,142 |
| Other investment income | 19 | **160** | 175 |
| Rental and other income | 20 | **2,607** | 3,001 |
| **TOTAL REVENUE** | | **4,303** | 9,562 |
| **EXPENSES** | | | |
| Staff cost | 21 | **3,835** | 3,176 |
| Legal and professional fees | | **726** | 693 |
| Finance expense | | **168** | 173 |
| Depreciation | 13,14 | **375** | 370 |
| Loss on settlement of liabilities | 25 | **-** | 1,129 |
| Other expenses | 24 | **3,450** | 1,925 |
| **TOTAL EXPENSES** | | **8,554** | 7,466 |
| **(LOSS) / PROFIT BEFORE IMPAIRMENT ALLOWANCES** | | **(4,251)** | 2,096 |
| Impairment charge on investments | 8 | **-** | (291) |
| Reversal of expected credit losses | | **137** | 585 |
| Reversal of impairment on property and equipment | 14 | **121** | 98 |
| **(LOSS) / PROFIT FOR THE YEAR** | | **(3,993)** | 2,488 |
| **(Loss) / profit attributable to** | | | |
| Shareholders | | **(3,993)** | 2,488 |
| Non-controlling interest | | **-** | - |

Bashar Mohamed Ebrahim Almutawa
Chairman

Ahmed Abdulwahed Ahmed Abdulrahman
Vice Chairman & Acting CEO

The attached notes 1 to 35 are part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2025

| | **31 December 2025 USD '000** | 31 December 2024 USD '000 |
|---|---|---|
| **(LOSS) / PROFIT FOR THE YEAR** | **(3,993)** | 2,488 |
| **Other comprehensive income (OCI)** | **-** | - |
| **Items that are, or may be reclassified to the statement of income** | | |
| Movement in equity-type investments at fair value through equity | - | (45) |
| | **-** | (45) |
| **Total other comprehensive income for the year** | **-** | (45) |
| **Total comprehensive income** | **(3,993)** | 2,443 |
| **Total comprehensive income attributable to** | | |
| Shareholders | **(3,993)** | 2,443 |
| Non-controlling interest | **-** | - |

Esterad Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF CHANGES IN OWNER'S EQUITY

For the year ended 31 December 2025

| **2025** | *Note* | *Share capital USD '000* | *Statutory reserve USD '000* | *Investment fair value reserve USD '000* | *Accumulated losses USD '000* | *Equity attributable to owners USD '000* | Subordinated *mudharaba AT1 USD '000* | *Total Equity USD '000* |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2025 | | 1,005 | 249 | - | (22,742) | **(21,488)** | 26,256 | **4,768** |
| Loss for the year | | - | - | - | (3,993) | **(3,993)** | - | **(3,993)** |
| Profit to Subordinated Mudharaba (AT1) | 17 | - | - | - | (793) | **(793)** | 265 | **(528)** |
| **Balance at 31 December 2025** | | **1,005** | **249** | **-** | **(27,528)** | **(26,274)** | **26,521** | **247** |
| 2024 | | | | | | | | |
| Balance at 1 January 2024 | | 1,005 | 5,441 | 45 | (29,252) | (22,761) | 22,803 | 42 |
| Profit for the year | | - | - | - | 2,488 | 2,488 | - | 2,488 |
| Subordinated Mudharaba (AT1) | 17 | - | - | - | - | - | 3,063 | 3,063 |
| Profit to Subordinated Mudharaba (AT1) | 17 | | | | (1,170) | (1,170) | 390 | (780) |
| Transfer to statement of income on exit of investment | | | | (45) | | (45) | | (45) |
| Adjustment of reserve with accumulated losses | 17 | - | (5,441) | | 5,441 | - | - | - |
| Transfer of 10% profits to statutory reserve | 17 | - | 249 | - | (249) | - | - | - |
| Balance at 31 December 2024 | | 1,005 | 249 | - | (22,742) | (21,488) | 26,256 | 4,768 |

The attached notes 1 to 35 form part of this consolidated financial statements

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2025

| | Note | ***31 December 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net (loss) / profit for the year | | **(3,993)** | 2,488 |
| Adjustments for: | | | |
| Impairment of investments | 8 | **-** | 291 |
| Reversal for credit losses | | **(137)** | (585) |
| Reversal of impairment on property and equipment | 14 | **(121)** | (98) |
| Fair value losses on investments carried at fair value through the consolidated statement of income - net | | **1,081** | 146 |
| Realised fair value loss / (gains) on exit of investment | | **4,192** | - |
| Restricted cash for AUM investors | 7 | **(1,926)** | - |
| Depreciation | 13,14 | **375** | 370 |
| Finance expenses | 13 | **168** | 173 |
| Profits earned on placements and short term liquidity certificates | | **(171)** | (206) |
| Dividend income | 19 | **-** | (33) |
| Investment fair value reserve | | **-** | (45) |
| Operating gains before changes in operating assets and liabilities | | **(532)** | 2,501 |
| Changes in operating assets and liabilities: | | | |
| Receivables | | **-** | (493) |
| Wakala contract receivable | | **-** | - |
| Dividend received | | | 33 |
| Investments | | **(1,495)** | (2,560) |
| Proceeds from sale of investments | | **11,479** | 14,043 |
| Property and equipment | 14 | **(25)** | 4 |
| Funding to project companies | | **2,153** | 959 |
| Profits received on placements and short term liquidity certificates | | **171** | 206 |
| Other assets | | **(1,078)** | (553) |
| Employee accruals | | **66** | 51 |
| Other liabilities | | **(10,137)** | (15,097) |
| Placements with financial institutions (original maturity more than 3 months) | | **(151)** | (252) |
| **Net cash from / (used in) operating activities** | | **451** | (1,158) |
| **FINANCING ACTIVITIES** | | | |
| Profit paid to Subordinated Mudharaba (AT1) | 17 | **(528)** | (780) |
| Rent paid towards right-of-use asset | 13 | **(266)** | (266) |
| **Net cash used in financing activities** | | **(794)** | (1,046) |
| **Net decrease in cash and cash equivalents** | | **(343)** | (2,204) |
| Cash and cash equivalents at beginning of the year | | **1,392** | 3,591 |
| ECL reversed on balances with banks | | **1** | 5 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | | **1,050** | 1,392 |
| **Represented by** | | | |
| Balances with banks * | | **718** | 1,127 |
| Placements with banks (original maturity less than three months) | | **2,258** | 265 |
| Less: Restricted placements from exit of investments | 7 | **(1,926)** | **-** |
| | | **332** | **265** |
| | | **1,050** | 1,392 |

* Balances with banks include an amount of USD 82 thousand (31 December 2024: USD Nil) which pertains to amounts received on behalf of Asset Under Management ("AUM") investors and are kept in a designated bank account which is not available for the Bank to use for its operational matters.

## CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE SHEET ASSETS UNDER MANAGEMENT

For the year ended 31 December 2025

| **2025** | **Opening Balance USD '000** | ***Movement during the period*** | | ***Group Fees USD '000*** | ***NAV Movement USD '000*** | ***Closing Balance USD '000*** |
|---|---|---|---|---|---|---|
| | | ***Additions USD '000*** | ***Distributions / Exits USD '000*** | | | |
| Private Equity | 233,388 | 2,431 | (98,239) | (463) | (30,938) | 106,179 |
| Real Estate | 93,084 | 32,806 | (9,371) | (1,724) | 8,035 | 122,830 |
| Restricted investments | 55 | - | - | - | 13 | 68 |
| **Balance at 31 December 2025** | **326,527** | **35,237** | **(107,610)** | **(2,187)** | **(22,890)** | **229,077** |

| 2024 | Opening Balance USD '000 | *Movement during the period* | | *Group Fees USD '000* | *NAV Movement USD '000* | *Closing Balance USD '000* |
|---|---|---|---|---|---|---|
| | | *Additions USD '000* | *Distributions / Exits USD '000* | | | |
| Private Equity | 167,338 | 6,378 | (3,991) | (1,335) | 64,998 | 233,388 |
| Real Estate | 109,478 | 6,497 | (7,340) | (3,767) | (11,784) | 93,084 |
| Restricted investments | 125 | - | (46) | - | (24) | 55 |
| Balance at 31 December 2024 | 276,941 | 12,875 | (11,377) | (5,102) | 53,190 | 326,527 |

**FIDUCIARY ASSETS UNDER MANAGEMENT**

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these condensed consolidated interim financial information. 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 necessary.

## 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 Building 1411, Road 4626, Block 346, Sea Front, Manama, Kingdom of Bahrain.

The Bank is currently 99.5% owned by Esterad Investment Company B.S.C (through its wholly owned subsidiary Esterad Ventures W.L.L), a Bahraini public joint stock company listed in Bahrain Bourse (hereafter referred to as “EIC”). 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 was approved by the Bank's Board of Directors on 26 February 2026.

### 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 (collectively referred to as the "Group") as at and for the year ended 31 December 2025. 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 |
|---|---|---|---|---|
| GPC Acquire | 1998 | 100% | Cayman Island | Ownership in Gulf Projects Company W.L.L. |
| 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 in the process of liquidation having a carrying value of USD NIL (31 December 2024: USD NIL).

## 2 FUNDAMENTAL ACCOUNTING ASSUMPTION

**Going concern assessment**

As at 31 December 2025, the Group incurred a loss of USD 3,993 thousand and, as of that date, the Group had accumulated losses of USD 27,528 thousand, resulting in negative equity attributable to shareholders of USD 26,274 thousand. The total Subordinated Mudharaba (AT1) as of the balance sheet date amounted to USD 26,521 thousand. The total equity of the Group as of 31 December 2025 was USD 247 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 these 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 do 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.

Total Sukuk issued as of the date of these consolidated financial statements amounts to USD 26.5 million (31 December 2024: USD 26.3 million).

(iii) The management is in discussion with the regulator on a restructuring plan for the Group 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 2025. The Bank is also not in compliance with other regulatory requirements by the CBB and the Commercial Companies Law 2001 (as amended) ("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-12.3.2, CA 2.2.1 (f) and CM-2.5.2 of the CBB Rulebook.

## 3 BASIS OF PREPARATION AND ACCOUNTING POLICIES

### 3.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation of Islamic Financial Institutions ("AAOIFI"). The group has complied with applicable requirements and regulations issued by the Central Bank of Bahrain ("CBB"). In line with the requirements of AAOIFI and the CBB rule book, for matters not covered by AAOIFI standards, the group takes guidance from the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

### 3.2 Basis of measurement

These 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 Material accounting policies

The accounting policies and methods of computation applied by the Group in the preparation of these consolidated financial statements is the same as those used in the preparation of the Group's last audited consolidated financial statements.

**A New standards, amendments and interpetations issued and effective for annual periods beginning on or after 1 January 2025:**

There are no new standards which have been issued and are effective on or after 1 January 2025.

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

At the date of authorization of these consolidated financial statements, the Bank has not applied the following new and revised Financial Accounting Standards ('FAS') that have been issued but not yet effective.

*i)* 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 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.

***3*** **BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

***3.3*** **Material accounting policies (continued)**

***B*** ***New standards, amendments, and interpretations issued but not yet effective (continued)***

*ii)* 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 adopt. The Group does not expect any significant impact on the adoption of this standard.

*iii)* FAS 48: Promotional Gifts and Prizes

This standard prescribes accounting and financial reporting requirements applicable to promotional gifts and prizes awarded by the Islamic financial institutions. The standard categorizes them into a) promotional gifts where entitlement occurs instantly; b) promotional prizes that are announced in advance to be awarded at a future date and c) loyalty programs where the obligation is accumulated over the period.

This standard is effective for the financial 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.

*iv)* FAS 50 - Financial reporting for Islamic Investment institutions (including investment funds)

This standard replaces FAS 14 – Investment Funds and updates the financial reporting framework for Islamic investment institutions.

Key enhancements include alignment with revised FAS 1 and the AAOIFI Conceptual Framework, removal of the separate statement of portfolio investments (now included in the notes), elimination of the cash-equivalent-value concept, and introduction of quasi-equity accounting principles.

The standard also provides guidance for Islamic investment institutions (IIIs) with multiple virtual entities or sub-funds, introduces requirements on NAV differential, removes earlier governance and stakeholder reporting requirements, and grants exemptions from consolidation or equity-accounting based on the unique business model and investment intent of the III.

This standard is effective for the financial periods beginning on or after 1 January 2027, with an option to early adopt.

The Group does not expect any significant impact on the adoption of this standard.

**3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**3.3 Material accounting policies (continued)**

***B New standards, amendments, and interpretations issued but not yet effective (continued)***

*v)* Withdrawal of FAS 26 – Investment in Real Estate and Related Transitional Provisions

AAOFI issued a guidance relating to withdrawal of FAS 26 – Investment in Real Estate and related transitional provisions ("Guidance"). Following the withdrawal, investment in real estate shall be accounted for in accordance with IAS 40 – Investment property.

This guidance is effective for the periods beginning on or after 1 January 2027 and with an option to early adopt.

The Group is assessing the impact of adopting this standard; however, no material impact is currently anticipated.

**4 Significant accounting judgements and estimates**

Preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The areas of significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were similar to those applied to the audited consolidated financial statements as at and for the year ended 31 December 2024.

The most significant judgements and estimates are discussed below:

**Going concern assessment**

These consolidated financial statements for the year ended 31 December 2025 have been prepared on a Going concern basis, (refer to note 2).

**Property and equipment**

Management has exercised significant judgement in classifying the Group's interest in a building as Property, Plant and Equipment (PPE) rather than Investment Property. The building is partially used by its subsidiary in operations, and its business model involves active property management with substantial ancillary services being provided. Accordingly, the building is considered PPE.

**Joint operations**

Management has exercised judgement in determining that its subsidiary along with an entity have joint control over the building constructed on land leased from a third party. This conclusion is based on the contractual arrangements that require unanimous consent from the joint operators for decisions over relevant activities of the building. Accordingly, the arrangement is accounted for as a joint operation, with each joint operator recognizing its share of assets, liabilities, revenues and expenses.

***Classification of investments***

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

**4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**

***Fair value of financial instruments***

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

The details of estimates and related sensitivity analysis are disclosed in notes 33.

***Impairment on assets carried at amortised cost***

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

***Impairment of equity-type investments at fair value through equity***

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

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

**Consolidation of special purpose entities (SPEs)**

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

**Recognition and measurement of provision and contingencies**

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

**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 (refer note 5 (g)).

## *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 account holders.

#### *(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.

#### *(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 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.

#### *(iv) Loss of control*

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in equity in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other equity are reclassified to the consolidated income statement.

***5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***

***(a) Basis of consolidation (continued)***

***(v) Transactions eliminated on consolidation***

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 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 have been changed where necessary to ensure consistency with the policies adopted by the Group.

***(vi) Investments in associates***

Other equity investments in associates are accounted for as fair value through the consolidated statement of income by availing the scope exemption under FAS 24, 'Investment in Associates'.

**(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) Joint operations**

The Group has entered into a joint arrangement with another entity for the management and operation of a commercial building. While the entity holds 84.6% of the commercial building and the Bank holds the balance 15.4% through its wholly owned subsidiary, this arrangement between the entities qualify as a joint operation, as both parties have direct rights to the assets and obligations for the liabilities of the arrangement. Both parties have rights to the building's assets and obligations for its liabilities and any decision regarding relevant activities under the arrangement require unanimous consent from both parties.

***5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***

**(d) Financial assets and liabilities**

*(i) Recognition and de-recognition*

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

A financial asset or liability is initially measured at fair value which is the value of the consideration given (in the case of an asset) or received (in the case of a liability).
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

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

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

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

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

*(ii) Classification of financial assets and liabilities*

On intial recognition, a financial asset is classified as measured at: amortised cost, FVTE or FVTIS.
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at FVTIS:
- the asset is held within a business model whose objective is to hold assets to collect contrctual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVTE only if it meets both the follwoing conditions and is not designated as at FVTIS:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.
On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value through OCI. This election is made on investment by investment basis. All other financial assets are classified as measured at FVTIS.
In addition, on initial recognition, the Group may irrevocably designate a financial asset that may otherwise meet the requirements to be measured at amortised cost or FVTE as at FVTIS if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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 orderly 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.

***5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***

**(e) 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 statement of 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 statement of 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.

*(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, equity-type investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of instruments carried at FVTIS are recognized in the income statement in the year which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognized in the consolidated statement of other comprehensive income. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognized in the in the consolidated statement of other comprehensive income is transferred to the consolidated 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 investment value net off impairment allowances.

***5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***

***(e) Investments (continued)***

*(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.

**(f) Impairment of financial assets**

Financial assets of the Group comprise of balances and placements with banks, investments, receivable from investment banking services, funding to project companies, 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.

***5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***

**(f) Impairment of financial assets (continued)**

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 from the entity in accordance with the contract and the cash flows that the Group expects to receive);

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

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

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

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

**Credit-impaired exposures**

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

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

***5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***

***(f) Impairment of financial assets (continued)***

***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.

*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.

Prepayments have to be estimated using previous trends and deducted from EAD while calculating ECL.

***5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***

***(f) Impairment of financial assets (continued)***

*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 statement of income – is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are subsequently reversed through equity.

**(g) 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. For impairement testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Good will arising from a business combination is allocated to CGUs or group of CGUs that are expected to benefit from synergies of the combination. The recoverable amount of an asset or CGU 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.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset 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 statement of income. 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.

**5 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***

**(h) 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.

**(i) 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 banks 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.

**(j) 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 statement of income 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 statement of income.

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.

**(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) (Note 17).

*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:

**Asset management fees comprise management fees, performance fees, and other deal-related income** earned by the Group from structuring, managing, and exiting assets and products on behalf of investors. Revenue from such fees is recognized in accordance with the contractual terms as the related services are provided over the duration of the contract except for performance fee which is recognised based on the performance at a given point-in-time.

Management fees are recognized as revenue when the associated performance obligations are satisfied, which occurs as the management services are rendered. These fees are non refundable and are recognized only when the Group has fulfilled all related obligations under the contract. In the event the exit tenure extends the original period of the investment, then the mangement fee is recognised only when:

- there are no remaining obligations to transfer goods or services and all, or substantially all, of the promised consideration has been received and is non-refundable; or
- the contract is terminated and the consideration that has been received is non-refundable.

Performance fees are only recognised once it is highly probable that there would be no significant reversal of any accumulated revenue in the future.

**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 at the prevailing rates provided by the financial institutions.

**Dividend income** is recognised to the extent that the probable future economic benefits associated with the item of revenue will flow to the Group and the revenue can be measured with reliability and that specific criteria have been met for each of the Group's activities.

**(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 ("SIO") scheme to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's contribution to this scheme, which represents a defined contribution scheme under International Accounting Standard 19 – Employee Benefits, is expensed as incurred.

Expatriate employees are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector, based on length of service and final remuneration. The provision for this unfunded commitment which represents a defined benefit plan under International Accounting Standard 19 – Employee benefits, is made by calculating the notional liability had all employees left at the reporting date. Effective 1 March 2024, all Bahrain based employers are required to make monthly contributions in relation to the expatriate indemnity to SIO, who would be responsible to settle leaving indemnities for expatriates at the time of end of service. Any indemnity liability prior to 1 March 2024 and pending transfer to the SIO in subsequent periods remains the obligation of the Company.

**(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 39 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 26.

**(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

Set out below is a classification of financial instruments held by the Group as at 31 December 2025 and 31 December 2024:

| | ***31 December 2025*** | | | |
|---|---|---|---|---|
| | ***Fair value through*** | | | |
| | ***statement of income USD '000*** | ***equity USD '000*** | ***Amortised cost USD '000*** | ***Total USD '000*** |
| **ASSETS** | | | | |
| Balances with banks | **-** | **-** | **718** | **718** |
| Placements with banks | **-** | **-** | **2,794** | **2,794** |
| Investments | **1,870** | **-** | **-** | **1,870** |
| Other assets | **-** | **-** | **2,995** | **2,995** |
| **TOTAL FINANCIAL ASSETS** | **1,870** | **-** | **6,507** | **8,377** |
| **LIABILITIES** | | | | |
| Other liabilities | **-** | **-** | **6,907** | **6,907** |
| Ijarah liability | **-** | **-** | **3,421** | **3,421** |
| **TOTAL FINANCIAL LIABILITIES** | **-** | **-** | **6,907** | **6,907** |

| | *31 December 2024* | | | |
|---|---|---|---|---|
| | *Fair value through* | | | |
| | *statement of income USD '000* | *equity USD '000* | *Amortised cost USD '000* | *Total USD '000* |
| ASSETS | | | | |
| Balances with banks | - | - | 1,127 | 1,127 |
| Placements with banks | | | 650 | 650 |
| Investments | 17,127 | - | - | 17,127 |
| Funding to project companies | - | - | 1,939 | 1,939 |
| Other assets | - | - | 2,037 | 2,037 |
| TOTAL FINANCIAL ASSETS | 17,127 | - | 5,753 | 22,880 |
| LIABILITIES | | | | |
| Other liabilities | - | - | 13,452 | 13,452 |
| Ijarah liability | - | - | 3,519 | 3,519 |
| TOTAL FINANCIAL LIABILITIES | - | - | 13,452 | 13,452 |

## 7 BALANCES AND PLACEMENTS WITH BANKS

Placements with banks include an amount of USD 1.9 million (31 December 2024: USD nil million) which have been received on account of exit of investments. These amounts have been placed in a designated account, which can only be utilised for the pupose of distributing to the Asset Under Management ('AUM') investors of the respective project (note 16.3).

| | ***31 December 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|
| Balances with banks | **719** | 1,129 |
| Less: ECL provision | **(1)** | (2) |
| | **718** | 1,127 |
| Placements with banks (more than 3 months) | **536** | 385 |
| Placements with banks (less than 3 months) | **2,258** | 265 |
| | **2,794** | 650 |
| Total balances and placements with banks | **3,512** | 1,777 |

## 8 INVESTMENTS

| | Notes | ***31 December 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|---|
| **Investments at fair value through statement of income** | | | |
| Quoted equities held for trading | | **815** | 2,572 |
| Unquoted equities | | **1,055** | 5,641 |
| Short term liquidity certificates | 8.2 | **-** | 8,914 |
| Total investments at fair value through statement of income | | **1,870** | 17,127 |
| **Investments at fair value through equity** | | | |
| Unquoted equities | | **10,156** | 10,156 |
| Less: impairment | | **(10,156)** | (10,156) |
| Total investments at fair value through equity | | **-** | - |
| **Total investments** | | **1,870** | 17,127 |

8.1 During the year, assets with a carrying value of USD 9,583 thousand (31 December 2024: USD 11,850 thousand) were utilised to settle debts with related parties.

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

The table below illustrates the movement in impairment provision during the year on Equity-type investments at fair value through equity:

| | ***31 December 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|
| Balance at the beginning of the year | **10,156** | 19,401 |
| Additions during the year | **-** | 3,507 |
| Charge for the year | **-** | 291 |
| Exit of investments | **-** | (13,043) |
| **Balance at 31 December** | **10,156** | 10,156 |

The following are the market segments for investments:

| | ***31 December 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|
| Real estate projects | **569** | 13,219 |
| Private equity | **486** | 3,342 |
| Manufacturing | **815** | 566 |
| | **1,870** | 17,127 |

The Group has the following material associates which are designated at FVTIS (unquoted equity securities):

| **Entity Name** | **Note** | **Country of incorporation** | **Principal Activity** | **Percentage Holding** | |
|---|---|---|---|---|---|
| | | | | **31 December 2025** | **31 December 2024** |
| Venture Capital Fund Bahrain | 8.3 | Bahrain | SME Investment Fund | 29.60% | 29.60% |
| **Short term liquidity certificates** | | | | | |
| LF II | 8.4 | U.A.E | Real Estate | Nil | 21.84% |
| LF III | 8.4 | U.A.E | Real Estate | Nil | 20.52% |

8.3 The investment in the associate is currently carried at USD Nil (31 December 2024: USD Nil).

8.4 During the period, the Bank exited its investments in the short term liquidity certificates in settlement of outstanding liabilities (note 8.1 and 25).

## 8 INVESTMENTS (continued)

**Unconsolidated structured entities**

Given below is the type of the structured entities that the Group does not consolidated but holds an interest. The maximum amount of loss that is recognised would not exceed the carrying amount of the assets held.

| Type of Entity | Nature and purpose | Interest held by the Group | Total Exposure |
|---|---|---|---|
| Investments vehicles | To generate fees from managing assets on behalf of third party investors.<br><br>These vehicles are financed through the issue of units to the third party investors | Management fees<br><br>Investment in units issued by the vehicle | 1,867 |

## 9 MURABAHA FINANCING

| | ***31 December 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|
| Financing to investee companies in the following sectors: | | |
| Manufacturing | **9,066** | 7,953 |
| | **9,066** | 7,953 |
| Less: ECL provision | **(9,066)** | (7,953) |
| **At 31 December** | **-** | - |

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

| | | |
|---|---|---|
| Balance at 1 January | **(7,953)** | (6,423) |
| Write off during the year | **-** | 359 |
| Impairment charge during the year | **(1,113)** | (1,889) |
| **Balance at 31 December** | **(9,066)** | (7,953) |

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.

## 10 RECEIVABLES

| | ***31 December 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|
| Receivable from investment banking services | **2,164** | 2,355 |
| | **2,164** | 2,355 |
| Less: ECL provision | **(2,164)** | (2,355) |
| | **-** | - |
| The table below shows the movement in impairment provision during the year: | | |
| At 1 January | **(2,355)** | (4,853) |
| Recoveries during the year | **191** | - |
| Written-off during the year | **-** | 2,498 |
| **At 31 December** | **(2,164)** | (2,355) |

## 11 FUNDING TO PROJECT COMPANIES

| | ***31 December 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|
| Gross funding * | **-** | 2,153 |
| Less: ECL provision | **-** | (214) |
| | **-** | 1,939 |

* This funding was fully repaid during the year.

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

| | ***31 December 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|
| At 1 January | **214** | 2,021 |
| Write off during the year | **-** | (1,061) |
| Reversal during the year | **(214)** | (746) |
| **At 31 December** | **-** | 214 |

These relate to funding provided to various projects and investments promoted by the Group. The financing facilities are free of profit 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.

## 12 OTHER ASSETS

| | ***31 December 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|
| Investment related other assets | **6,281** | 6,281 |
| Project costs recoverable | **3,552** | 3,459 |
| Dividend receivable | **124** | 124 |
| Other receivables | **2,411** | 1,548 |
| Prepayment | **160** | 126 |
| | **12,528** | 11,538 |
| Less: ECL provision | **(9,373)** | (9,375) |
| | **3,155** | 2,163 |

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

| | | |
|---|---|---|
| At 1 January | **9,375** | 10,656 |
| Charge / (reversal) during the year | **(2)** | (417) |
| Written-off during the year | **-** | (864) |
| **At 31 December** | **9,373** | 9,375 |

## 13 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 2024 | **3,326** | **3,612** |
| Depreciation | **(151)** | **-** |
| Finance cost | **-** | **173** |
| Rent paid | **-** | **(266)** |
| As at 31 December 2024 | **3,175** | **3,519** |
| Depreciation | **(152)** | **-** |
| Finance cost | **-** | **168** |
| Rent paid | **-** | **(266)** |
| **As at 31 December 2025** | **3,023** | **3,421** |

| | ***31 December 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|
| **Right-of-use asset** | | |
| Non-current | **3,023** | 3,175 |
| As at 31 December | **3,023** | 3,175 |
| **Ijarah liability** | | |
| Upto 1 year | **103** | 98 |
| More than 1 year | **3,318** | 3,421 |
| As at 31 December | **3,421** | 3,519 |
| **Ijarah liability** | | |
| Gross ijarah liability | **5,965** | 5,965 |
| Deferred cost on ijarah liability | **(2,544)** | (2,446) |
| | **3,421** | 3,519 |

**14 PROPERTY AND EQUIPMENT**

| | *Building ** | *Office equipment* | *Furniture & fixtures* | *Motor vehicles* | *Total* |
|---|---|---|---|---|---|
| | *USD '000* | *USD '000* | *USD '000* | *USD '000* | *USD '000* |
| **Cost** | | | | | |
| At 1 January 2025 | 9,598 | 1,848 | 1,333 | 41 | **12,820** |
| Additions during the year | - | 22 | 3 | - | **25** |
| **At 31 December 2025** | **9,598** | **1,870** | **1,336** | **41** | **12,845** |
| **Depreciation** | | | | | |
| At 1 January 2025 | 3,753 | 1,811 | 1,067 | 41 | **6,672** |
| Charge for the year | 171 | 19 | 33 | - | **223** |
| **At 31 December 2025** | **3,924** | **1,830** | **1,100** | **41** | **6,895** |
| **Impairment** | | | | | |
| At 1 January 2025 | 2,274 | - | - | - | 2,274 |
| Reversal during the year | (121) | - | - | - | (121) |
| **Net book value at 31 December 2025** | **3,521** | **40** | **236** | **-** | **3,797** |

| | *Building ** | *Office equipment* | *Furniture & fixtures* | *Motor vehicles* | *Total* |
|---|---|---|---|---|---|
| | *USD '000* | *USD '000* | *USD '000* | *USD '000* | *USD '000* |
| Cost | | | | | |
| At 1 January 2024 | 10,098 | 1,824 | 1,237 | 496 | 13,655 |
| Disposal during the year | (500) | - | - | (102) | (602) |
| Adjustments during the year | - | (4) | - | (353) | (357) |
| Additions during the year | - | 28 | 96 | - | 124 |
| At 31 December 2024 | 9,598 | 1,848 | 1,333 | 41 | 12,820 |
| Depreciation | | | | | |
| At 1 January 2024 | 3,955 | 1,790 | 1,041 | 496 | 7,282 |
| Disposal during the year | (374) | - | - | (102) | (476) |
| Adjustments during the year | - | - | - | (353) | (353) |
| Charge for the year | 172 | 21 | 26 | - | 219 |
| At 31 December 2024 | 3,753 | 1,811 | 1,067 | 41 | 6,672 |
| Impairment | | | | | |
| At 1 January 2024 | 2,372 | - | - | - | 2,372 |
| Reversal during the year | (98) | - | - | - | (98) |
| Net book value at 31 December 2024 | 3,571 | 37 | 266 | - | 3,874 |

* Includes 15.38% stake of the Venture Capital building, situated in the capital city of the Kingdom of Bahrain (refer note 5 (c)).

## 15 EMPLOYEE ACCRUALS

| | Note | *31 December 2025 USD '000* | *31 December 2024 USD '000* |
|---|---|---|---|
| Employees end of service benefits | 15.1 | **221** | 183 |
| Other employee related accruals | | **153** | 125 |
| | | **374** | 308 |

### 15.1 EMPLOYEES' END OF SERVICE BENEFITS

| Movement in provisions for the year | *31 December 2025 USD '000* | *31 December 2024 USD '000* |
|---|---|---|
| At the beginning of the year | **183** | 187 |
| Charge for the year | **121** | 71 |
| Paid during the year | **(61)** | (30) |
| Transferred to SIO during the year * | **(22)** | (45) |
| **At 31 December** | **221** | 183 |

* As per the changes in end-of-service benefits system for expatriate employees introduced by SIO effective from 1 March 2024, employers are required to pay the monthly end-of-service contributions electronically through the SIO portal in relation to the expatriate employees. SIO would be responsible to settle leaving indemnities for expat employees at the time of end of service. Any indemnity liability prior to 1 March 2024 and pending transfer to the SIO in subsequent periods remains the obligation of the Company.

| **Total number of employees at 31 December:** | *31 December 2025* | *31 December 2024* |
|---|---|---|
| Bahrainis | **22** | 17 |
| Expatriate | **7** | 6 |
| **At 31 December** | **29** | 23 |

## 16 OTHER LIABILITIES

| | **Note** | *31 December 2025 USD '000* | *31 December 2024 USD '000* |
|---|---|---|---|
| Payable under settlement agreement | 16.1 | **-** | 8,689 |
| Provision against guarantees | 16.2 | **3,782** | 4,902 |
| Accounts payable | | **3,779** | 4,512 |
| Client funds | 16.3 | **2,008** | 251 |
| Settlements with a related party | 16.4 | **1,120** | 2,328 |
| Provisions and accruals | | **586** | 751 |
| Deferred income | | **40** | 27 |
| | | **11,315** | 21,460 |

16.1 Amount payable under settlement agreement represents past due profits on Islamic financing payable settled as of 30 June 2021. The outstanding amount was settled in kind during the year (Note 8.1).

16.2 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. The Group entered into settlement agreements with majority of the claimants over a 3 year horizon and are in the process of entering into agreements with the remaining creditors.

16.3 Liabilities include amounts received on account of exit of various investments during the year, which relate to amounts payable to the AUM investors of the respective projects. These amounts have been placed in a designated account with financial institutions (note 7).

16.4 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 generation of revenue. This agreement however expired, and the outstanding balance as of that date was settled in kind during the year (note 25).

The Group however continues to have a shared services agreement in place with its major shareholder.

## 17 EQUITY

| | ***31 December 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|
| Authorised: 10,000,000 (31 December 2024: 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 2024: 1,005,000 shares of USD 1 each) | **1,005** | 1,005 |

**SUBORDINATED MUDHARABA (AT1)**

The Group issued Subordinated Mudharaba (AT1) {Additional Tier 1 Sukuk ("Sukuk")} of USD 26.5 million (31 December 2024: USD 26.2 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 Group. The Sukuk have precedence over only the equity shareholders in terms of liens over Net Assets, and distributions. The Sukuk meet the definition of equity under FAS 1 and accordingly have been classified as a component of Owners' equity (net of all related Issuance costs).

The Sukuk were issued to:

- Certain creditors (each a "Counterparty"), where the obligation of the Counterparty to pay the subscription price of the Sukuk was completely set off against existing obligations by the Group to pay certain Outstanding Amounts owed to that Counterparty; and the Group's AT1 Capital increased accordingly.

- Certain Investors (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 Group.

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 Group on a semiannual basis. This is however subject to the availability of distributable funds, 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 2025 *USD '000*** | 31 December 2024 *USD '000* |
|---|---|---|
| Opening accumulated losses | **(27,755)** | (33,196) |
| Netting statutory reserve with accumulated losses | **-** | 5,441 |
| Accumulated losses prior to issuance of AT1 | **(27,755)** | (27,755) |
| Opening profits available for AT1 | **5,013** | 3,944 |
| Sukuk coupons paid / capitalised | **(793)** | (1,170) |
| Loss / (profit) recognised post issuance of AT1 | **(3,993)** | 2,488 |
| Transfer of net profit to statutory reserve for the year | **-** | (249) |
| Profit available for distribution to AT1 holders * | **227** | 5,013 |
| Accumulated losses post issuance of AT1 | **(27,528)** | (22,742) |

* On account of insufficient profits available for distribution to the AT1 holders, the Board of directors resolved not to distribute profits to the AT1 holders

**Statutory reserve**

The Commercial Companies Law ("CCL") and the Bank's articles of association requires that 10% of the profit for the year shall be transferred to a statutory reserve. The reserve is not distributable except in such circumstances as stipulated in the CCL and following the approval of the CBB.

In the extraordinary meeting of the shareholders held on 29 September 2024, it was resolved to reduce the accumulated losses of the Bank, by adjusting the losses with the accumulated statutory reserve of the Bank which stood at USD 5,441 thousand.

During the current year, the Bank did not transfer any amounts to the statutory reserve (31 December 2024: USD 249 thousand).

## 18 ASSET MANAGEMENT FEES

| | ***31 December 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|
| Management fees | **4,042** | 5,390 |
| Performance fees | **2,632** | - |
| Other fees | **135** | - |
| | **6,809** | 5,390 |

All asset management fee are recognised at a point-in-time.

## 19 OTHER INVESTMENT INCOME

| | ***31 December 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|
| Profits from liquidity certificates | **160** | 142 |
| Dividend income | **-** | 33 |
| | **160** | 175 |

## 20 RENTAL AND OTHER INCOME

| | **Notes** | ***31 December 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|---|
| Rental income | | **1,351** | 1,417 |
| Reversal of excess accruals | | **606** | 503 |
| Recovery of project costs | | **360** | - |
| Finance income | | **11** | 63 |
| Gain from liability and investment swaps | 20.1 | **-** | 441 |
| Others | | **279** | 577 |
| | | **2,607** | 3,001 |

20.1 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.

## 21 STAFF COSTS

| | ***31 December 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|
| Salaries and benefits | **3,518** | 2,901 |
| Social insurance expenses | **301** | 252 |
| Other staff expenses | **16** | 23 |
| | **3,835** | 3,176 |

## 22 FINANCE EXPENSE

| | ***31 December 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|
| Ijarah liability | **168** | 173 |
| | **168** | 173 |

## 23 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 and are gross of credit losses allowances:

| | *31 December 2025* | | | | | |
|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Provisions** | **Net** |
| | ***USD '000*** | ***USD '000*** | ***USD '000*** | ***USD '000*** | ***USD '000*** | ***USD '000*** |
| ***Gross exposures subject to ECL*** | | | | | | |
| Balances with banks | 719 | - | - | 719 | (1) | **718** |
| Placements with banks | 2,794 | - | - | 2,794 | - | **2,794** |
| Murabaha financing | - | - | 9,066 | 9,066 | (9,066) | **-** |
| Receivables | - | - | 2,164 | 2,164 | (2,164) | **-** |
| Other assets | 567 | 978 | 10,823 | 12,368 | (9,373) | **2,995** |
| | **4,080** | **978** | **22,053** | **27,111** | **(20,604)** | **6,507** |
| Guarantees and commitments | - | 415 | 20,025 | 20,440 | (1) | **20,439** |
| | **4,080** | **1,393** | **42,078** | **47,551** | **(20,605)** | **26,946** |

**23 IMPAIRMENT OF FINANCIAL ASSETS (continued)**

| | *31 December 2024* | | | | | |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Provisions | Net |
| | *USD '000* | *USD '000* | *USD '000* | *USD '000* | *USD '000* | *USD '000* |
| *Gross exposures subject to ECL* | | | | | | |
| Balances with banks | 1,129 | - | - | 1,129 | (2) | 1,127 |
| Placements with banks | 650 | - | - | 650 | - | 650 |
| Murabaha financing | - | - | 7,953 | 7,953 | (7,953) | - |
| Receivables | - | - | 2,355 | 2,355 | (2,355) | - |
| Funding to project companies | - | 2,153 | - | 2,154 | (215) | 1,939 |
| Other assets | 196 | 1,880 | 9,462 | 11,538 | (9,375) | 2,163 |
| | 1,975 | 4,033 | 19,770 | 25,779 | (19,900) | 5,879 |
| Guarantees and commitments | 18,964 | 415 | 18,259 | 37,638 | (9) | 37,629 |
| | 20,939 | 4,448 | 38,029 | 63,417 | (19,909) | 43,508 |

## 24 OTHER EXPENSES

| | Notes | ***31 December 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|---|
| Office expenses | | **699** | 780 |
| Project management costs | 24.1 | **127** | 634 |
| Board of directors and Shari'a supervisory board | 24.3 | **381** | 215 |
| Share of costs and other expenses with a related party | 24.2 & 25 | **2,024** | 114 |
| Publicity, conferences and promotion | | **53** | 35 |
| Other | | **166** | 147 |
| | | **3,450** | 1,925 |

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

24.2 The Group entered into a shared services agreement with the major shareholder.

24.3 During the year, the Bank accrued for Board sitting fees of USD 165 thousand pertaining to the prior year, which was approved during the period.

## 25 RELATED PARTY TRANSACTIONS AND BALANCES

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

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.

Other liabilities include amounts due to the major shareholder in lieu of an investment management and revenue sharing agreement entered into, in order to improve the quality of the assets under management and maximise the the generation of revenue.

**25 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

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

| **31 December 2025** | ***Significant unconsolidated Investments at fair value through statement of income*** ***USD '000*** | ***Associates*** ***USD '000*** | ***Board / key management / Shari'a board / external auditors*** ***USD '000*** | ***Significant shareholders / entities in which directors are interested*** ***USD '000*** | ***Total*** ***USD '000*** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Other assets | - | - | - | 386 | **386** |
| **Liabilities** | | | | | |
| Employee accruals | - | - | 96 | - | **96** |
| Other liabilities | - | - | 151 | 1,120 | **1,271** |
| **Expenses** | | | | | |
| Share of management fees | - | - | - | (135) | **(135)** |
| Service level cost reimbursements | - | - | - | (2,226) | **(2,226)** |
| Board of directors' attendance fees | - | - | (324) | - | **(324)** |
| Salaries and other short-term benefits | - | - | (674) | - | **(674)** |
| Legal and professional fees | - | - | (231) | - | **(231)** |
| Other expenses | - | - | (57) | - | **(57)** |

**25 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

| 31 December 2024 | *Significant unconsolidated Investments at fair value through statement of income* *USD '000* | *Associates* *USD '000* | *Board / key management / Shari'a board / external auditors* *USD '000* | *Significant shareholders / entities in which directors are interested* *USD '000* | *Total* *USD '000* |
|---|---|---|---|---|---|
| Assets | | | | | |
| Investments - net | - | 7,260 | - | - | 7,260 |
| Other assets | - | 1,939 | - | | 1,939 |
| Liabilities | | | | | |
| Employee accruals | - | - | 84 | - | 84 |
| Other liabilities | - | 363 | 160 | 14,092 | 14,615 |
| Fair value losses on investments carried at fair value through income - net | - | 175 | - | - | 175 |
| Loss on settlement of liabilities * | - | - | - | (1,129) | (1,129) |
| Expenses | | | | | |
| Service level cost reimbursements | - | - | - | (114) | (114) |
| Board of directors' attendance fees | - | - | (158) | - | (158) |
| Salaries and other short term benefits | - | - | (690) | - | (690) |
| Legal and professional fees | - | - | (202) | - | (202) |
| Other expenses | (50) | - | (57) | - | (107) |
| Reversal of provision for credit losses | (1) | - | - | - | (1) |

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

## 25 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.

No shares of the Bank were held by the Directors during the year.

**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 559 thousand (31 December 2024: USD 114 thousand) (note 24).

During the year, the Bank:

a. Entered into an agreement, post approval by the Board, whereby it transferred assets towards settlement of dues owed by it to the related parties.
b Acquired funding from its parent amounting to USD 298 thouand, which was subsequently settled in kind by transferring assets owned by the Bank.
c. Reimbursed its major shareholder for an amount of USD 1.6 million on account of services rendered in successfully collecting management fees, performance fee and referal fees for various investments

**Board of Directors' remuneration**
No board remuneration was proposed for the years 2025 and 2024 except for the attendance fee.

## 26 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 2025 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 2025 is US cents nil for every share held (31 December 2024: 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.

## 27 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 2024: nil).

## 28 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.

## 29 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 32 (c).

## 29 MATURITY PROFILE (continued)

| **31 December 2025** | ***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 | 718 | - | - | 718 | - | - | - | **718** |
| Placements with banks | 2,794 | - | - | 2,794 | - | - | - | **2,794** |
| Investments | - | 815 | - | 815 | - | - | 1,055 | **1,870** |
| Other assets | - | 1,375 | 873 | 2,248 | 906 | 1 | - | **3,155** |
| Right-of-use asset | - | - | - | - | - | 3,023 | - | **3,023** |
| Property and equipment | - | - | - | - | - | 3,797 | - | **3,797** |
| **Total assets** | **3,512** | **2,190** | **873** | **6,575** | **906** | **6,821** | **1,055** | **15,357** |
| **Liabilities** | | | | | | | | |
| Employee accruals | 94 | - | 18 | 112 | 262 | - | - | **374** |
| Ijarah liability | - | - | 103 | 103 | - | 3,318 | - | **3,421** |
| Other liabilities | 2,509 | 363 | 2,282 | 5,154 | 6,157 | 4 | - | **11,315** |
| **Total liabilities** | **2,603** | **363** | **2,403** | **5,369** | **6,419** | **3,322** | **-** | **15,110** |
| Net liquidity gap | **909** | **1,827** | **(1,530)** | **1,206** | **(5,513)** | **3,499** | **1,055** | **247** |
| Cumulative liquidity gap | **909** | **2,736** | **1,206** | **1,206** | **(4,307)** | **(808)** | **247** | **247** |
| **Commitments and contingencies** | **-** | **-** | **-** | **-** | **20,439** | **-** | **-** | **20,439** |

| *31 December 2024* | *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 | 1,127 | - | - | 1,127 | - | - | - | 1,127 |
| Placements with banks | 265 | 135 | 250 | 650 | - | - | - | 650 |
| Investments | - | - | 29 | 29 | - | - | 17,098 | 17,127 |
| Funding to project companies | - | - | - | - | 1,939 | - | - | 1,939 |
| Other assets | - | 6 | 1,045 | 1,051 | 1,089 | 23 | - | 2,163 |
| Right-of-use asset | - | - | - | - | - | 3,175 | - | 3,175 |
| Property and equipment | - | - | - | - | - | 3,874 | - | 3,874 |
| Total assets | 1,392 | 141 | 1,324 | 2,857 | 3,028 | 7,072 | 17,098 | 30,055 |
| Liabilities | | | | | | | | |
| Employee accruals | 89 | - | 18 | 107 | 201 | - | - | 308 |
| Ijarah liability | - | - | 98 | 98 | - | 3,421 | - | 3,519 |
| Other liabilities | 617 | 449 | 4,164 | 5,230 | 16,225 | 5 | - | 21,460 |
| Total liabilities | 706 | 449 | 4,280 | 5,435 | 16,426 | 3,426 | - | 25,287 |
| Net liquidity gap | 686 | (308) | (2,956) | (2,578) | (13,398) | 3,646 | 17,098 | 4,768 |
| Cumulative liquidity gap | 686 | 378 | (2,578) | (2,578) | (15,976) | (12,330) | 4,768 | 4,768 |
| Commitments and contingencies | - | - | 18,674 | 18,674 | 18,964 | - | - | 37,638 |

## 30 CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND EQUITY OF INVESTMENT ACCOUNT HOLDERS

### a) Industry sector

| **31 December 2025** | ***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 | - | 718 | - | - | - | - | - | **718** |
| Placements with banks | - | 2,794 | - | - | - | - | - | **2,794** |
| Investments | - | 357 | 569 | - | 815 | - | 129 | **1,870** |
| Other assets | - | 50 | 2,019 | - | 4 | - | 1,082 | **3,155** |
| Right-of-use asset | - | - | 3,023 | - | - | - | - | **3,023** |
| Property and equipment | - | - | 3,797 | - | - | - | - | **3,797** |
| **Total assets** | **-** | **3,919** | **9,408** | **-** | **819** | **-** | **1,211** | **15,357** |
| **Liabilities** | | | | | | | | |
| Employee accruals | - | - | - | - | - | - | 374 | **374** |
| Ijarah liability | - | - | - | - | - | - | 3,421 | **3,421** |
| Other liabilities | 3,781 | 4,206 | 165 | - | 8 | - | 3,155 | **11,315** |
| **Total liabilities** | **3,781** | **4,206** | **165** | **-** | **8** | **-** | **6,950** | **15,110** |
| Commitments and contingencies | **20,439** | **-** | **-** | **-** | **-** | **-** | **-** | **20,439** |

| 31 December 2024 | *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 | - | 1,127 | - | - | - | - | - | 1,127 |
| Placements with banks | - | 650 | - | - | - | - | - | 650 |
| Investments | - | 117 | 13,572 | - | 2,572 | - | 866 | 17,127 |
| Funding to project companies | - | - | 1,939 | - | - | - | - | 1,939 |
| Other assets | - | 14 | 859 | - | 703 | - | 587 | 2,163 |
| Right-of-use asset | - | - | 3,175 | - | - | - | - | 3,175 |
| Property and equipment | - | - | 3,570 | - | - | - | 304 | 3,874 |
| Total assets | - | 1,908 | 23,115 | - | 3,275 | - | 1,757 | 30,055 |
| Liabilities | | | | | | | | |
| Employee accruals | - | - | - | - | - | - | 308 | 308 |
| Ijarah Liability | - | - | - | - | - | - | 3,519 | 3,519 |
| Other liabilities | 4,894 | 3,076 | 345 | - | 8 | - | 13,137 | 21,460 |
| Total liabilities | 4,894 | 3,076 | 345 | - | 8 | - | 16,964 | 25,287 |
| Commitments and contingencies | 18,674 | - | 15,955 | - | - | - | 3,009 | 37,638 |

**30 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 2025** | ***GCC countries USD '000*** | ***Other MENA countries USD '000*** | ***Europe USD '000*** | ***Cayman Islands / Americas USD '000*** | ***Total USD '000*** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Balances with banks | 718 | - | - | - | **718** |
| Placements with banks | 2,794 | - | - | - | **2,794** |
| Investments | 1,029 | 815 | 26 | - | **1,870** |
| Other assets | 2,900 | 4 | 14 | 237 | **3,155** |
| Right-of-use asset | 3,023 | - | - | - | **3,023** |
| Property and equipment | 3,797 | - | - | - | **3,797** |
| **Total assets** | **14,261** | **819** | **40** | **237** | **15,357** |
| **Liabilities** | | | | | |
| Employee accruals | 374 | - | - | - | **374** |
| Ijarah Liability | 3,421 | - | - | - | **3,421** |
| Other liabilities | 7,526 | 3,789 | - | - | **11,315** |
| **Total liabilities** | **11,321** | **3,789** | **-** | **-** | **15,110** |
| Commitments and contingencies | - | 20,439 | - | - | **20,439** |

| 31 December 2024 | *GCC countries USD '000* | *Other MENA countries USD '000* | *Europe USD '000* | *Cayman Islands / Americas USD '000* | *Total USD '000* |
|---|---|---|---|---|---|
| Assets | | | | | |
| Balances with banks | 1,127 | - | - | - | 1,127 |
| Placements with banks | 650 | - | - | - | 650 |
| Investments | 14,526 | 2,572 | 29 | - | 17,127 |
| Funding to project companies | 1,939 | - | - | - | 1,939 |
| Other assets | 1,415 | 543 | 13 | 192 | 2,163 |
| Right-of-use asset | 3,175 | - | - | - | 3,175 |
| Property and equipment | 3,874 | - | - | - | 3,874 |
| Total assets | 26,706 | 3,115 | 42 | 192 | 30,055 |
| Liabilities | | | | | |
| Employee accruals | 308 | - | - | - | 308 |
| Ijarah Liability | 3,519 | - | - | - | 3,519 |
| Other liabilities | 15,990 | 5,293 | 177 | - | 21,460 |
| Total liabilities | 19,817 | 5,293 | 177 | - | 25,287 |
| Commitments and contingencies | 18,964 | 18,674 | - | - | 37,638 |

## 31 COMMITMENTS AND CONTINGENCIES

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

| | ***31 December 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|
| Letters of guarantee | **20,439** | 37,638 |
| | **20,439** | 37,638 |

**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 20,024 thousand (31 December 2024: USD 18,259 thousand). In addition to the corporate guarantees, the investee company has also pledged its primary asset to the lender against these obligations.

**Guarantees provided by the Group**

The Group provided a guarantee to Real Estate Regulatory Authority (RERA) on behalf of an associated entity for a total amount of USD 24 million (31 December 2024: USD 16 million), which was cancelled during the year. This guarantee was backed by a counter guarantee from EIC to cover the Group's exposure in the guarantee.

## 32 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 2025.

**32 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 29.

*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 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|
| Murabaha financing to investee companies | **9,066** | 7,953 |
| Receivables | **2,164** | 2,355 |
| Other assets | **12,368** | 9,462 |
| **Total** | **23,597** | 19,770 |

**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 30.

At 31 December 2025, the total credit exposure to individual counterparties which comprised 10% or more of the Group's equity was USD 19 million relating to 28 counterparties (31 December 2024: USD 37 million relating to 25 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 29.

**32 *RISK MANAGEMENT AND CAPITAL ADEQUACY (continued)***

| | *Gross undiscounted cash flows* | | | | | | |
|---|---|---|---|---|---|---|---|
| **31 December 2025** | ***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 | **94** | **-** | **18** | **262** | **-** | - | **374** |
| Ijarah liability | **-** | **-** | **103** | **-** | **3,318** | - | **3,421** |
| Other liabilities | **2,509** | **363** | **2,282** | **6,157** | **4** | - | **11,315** |
| **Total financial liabilities** | **2,603** | **363** | **2,403** | **6,419** | **3,322** | **-** | **15,110** |
| **Commitments and contingencies** | **-** | **-** | **-** | **20,439** | **-** | **-** | **20,439** |

| | *Gross undiscounted cash flows* | | | | | | |
|---|---|---|---|---|---|---|---|
| 31 December 2024 | *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 | 89 | - | 18 | 201 | - | - | 308 |
| Ijarah liability | - | - | 98 | - | 3,421 | - | 3,519 |
| Other liabilities | 617 | 449 | 4,164 | 16,225 | 5 | - | 21,460 |
| Total financial liabilities | 706 | 449 | 4,280 | 16,426 | 3,426 | - | 25,287 |
| Commitments and contingencies | - | - | 18,674 | 18,964 | - | - | 37,638 |

**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.

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 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|
| Kuwaiti Dinars | **7** | 7 |
| Great Britain Pounds | **1,843** | 171 |
| Turkish Lira | **7** | 5,172 |

**32 *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 2025 and 31 December 2024 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 2025*** | | *31 December 2024* | |
|---|---|---|---|---|---|
| | ***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% | **1** | **1** | 1 | 1 |
| Great Britain Pounds | +10% | **184** | **184** | 17 | 17 |
| Turkish Lira | +10% | **1** | **1** | 517 | 517 |
| Kuwaiti Dinars | -10% | **(1)** | **(1)** | (1) | (1) |
| Great Britain Pounds | -10% | **(369)** | **(369)** | (34) | (34) |
| Turkish Lira | -10% | **(1)** | **(1)** | (517) | (517) |

*(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 2025*** | | *31 December 2024* | |
|---|---|---|---|---|
| | ***Effect on income USD '000*** | ***Effect on equity USD '000*** | *Effect on income USD '000* | *Effect on equity USD '000* |
| Trading Securities | **82** | **82** | 257 | 257 |

**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.

During the year, CBB imposed financial penalties of USD 27 thousand regarding CBB directives in relation to certain court mandates.

**32 *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 2025 USD '000*** | *31 December 2024 USD '000* |
|---|---|---|
| Total risk weighted assets | **168,233** | 311,258 |
| CET1 capital | **(29,207)** | (23,007) |
| Additional Tier 1 capital | **2,523** | 4,669 |
| Tier 2 capital | **71** | 327 |
| Total regulatory capital | **(26,613)** | (18,011) |
| Total regulatory capital expressed as a percentage of total risk weighted assets | **-15.82%** | -5.79% |
| 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 (15.82)% as of 31 December 2025, 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 (15.86)% and (17.36)% respectively, is also in breach of the minimum regulatory 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-12.3.2, CA 2.2.1 (f) and CM-2.5.2 of the CBB Rulebook.

## 33 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 2025 and 31 December 2024, the fair value of bank balances, placements with financial institutions, other financial assets, 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 statement of income 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:

**33 *FAIR VALUE (continued)***

| **31 December 2025** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | **USD '000** | **USD '000** | **USD '000** | **USD '000** |
| Investment securities carried at: | | | | |
| - fair value through statement of income | 815 | - | 1,055 | **1,870** |
| | **815** | **-** | **1,055** | **1,870** |

| 31 December 2024 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | USD '000 | USD '000 | USD '000 | USD '000 |
| Investment securities carried at: | | | | |
| - fair value through statement of income | - | 2,572 | 14,555 | 17,127 |
| | - | 2,572 | 14,555 | 17,127 |

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

| | ***31 December 2025*** | *31 December 2024* |
|---|---|---|
| | ***USD 000*** | *USD 000* |
| At 1 January | **14,555** | 19,131 |
| Fair value losses recognised in the consolidated statement of income | **(4,206)** | (378) |
| Impairment recognised during the year | **-** | (291) |
| Sale of investments during the year | **(9,294)** | (8,592) |
| Transfers from level 3 to level 2 * | **-** | (566) |
| Additions during the year | **-** | 2,880 |
| Investments received on sukuk issuance | **-** | 2,371 |
| At 31 December | **1,055** | 14,555 |

| **Type** | **Valuation technique** | **Significant unobservable inputs** | **Inter-relationship between significant unobservable inputs and fair value measurement** |
|---|---|---|---|
| Investment securities | 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<br><br>Risk adjusted discount | The estimated fair value would increase (decrease) if:<br>- the expected cash flows were higher (lower); or<br>- 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<br><br>Discount for lack of marketability | The estimated fair value would increase (decrease) if:<br>- the EBITDA multiple were higher (lower); or<br>- 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:<br>- the adjusted net assets were higher (lower). |
| | Comparable transaction prices | Not applicable | The estimated fair value would increase (decrease) if:<br>the Comparable transaction prices were higher (lower). |

**33 *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 2025 USD 000*** | *31 December 2024 USD 000* |
|---|---|---|
| WACC (1% increase) | **(7)** | (898) |
| Comparable transaction price (10% increase) | **57** | 61 |
| Non-marketability factor (10% increase) | **(9)** | (8) |
| Net asset value (10% increase) | **36** | 216 |
| At 31 December | **77** | (629) |
| WACC (1% decrease) | **7** | 1,090 |
| Comparable transaction price (10% decrease) | **(57)** | (61) |
| Non-marketability factor (10% decrease) | **11** | 12 |
| Net asset value (10% decrease) | **(36)** | (216) |
| **At 31 December** | **(75)** | 825 |

**34 BAHRAIN DOMESTIC MINIMUM TOP-UP TAX**

On 1 September 2024, Bahrain issued the Decree Law (11) of 2024 which introduces a Domestic Minimum Top-Up Tax ("DMTT") for Multinational Enterprises ("MNEs") (hereinafter referred to as the "DMTT Law"). If the Ultimate Parent Entity of the MNE group is domiciled and operates in the Kingdom of Bahrain, a minimum tax of 15% will be levied on the taxable income of the Bahrain resident entities of the MNE group for fiscal years commencing on or after 1 January 2025.

As per the group's assessment of applicability of the DMTT law, it has assessed and concluded that it is not in scope for the Bahrain DMTT law or the OECD Global Anti-Base Erosion Pillar Two Model Rules ('GloBE rules'). The reason for this conclusion is:

a. The Group is not an MNE group as it only operates in Bahrain

b. The Group does not have total annual consolidated revenue exceeding EUR 750 million in at least two of the four preceding fiscal years.

Accordingly, the Group does not expect to be subject to the Bahrain DMTT law and GloBE rules for the fiscal year.

**35 COMPARATIVE FIGURES**

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