**Financial Statements and Independent Auditor's Report**

# Bin Dowal Islamic Microfinance Bank

# (Yemeni Closed Joint Stock Company)

**For the period ended December 31, 2022**

بنك بن دول للتمويل الأصغر الإسلامي

Bin Dowal Islamic Microfinance Bank

**Bin Dowal Islamic Microfinance Bank**
(Yemeni Closed Joint Stock Company)

## Contents

# Independent Auditor's Report

**To:** **The Shareholders' of**
**Bin Dowal Islamic Microfinance Bank**
**(Yemeni Closed Joint Stock Company)**
**Hadramout - Republic of Yemen**

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**Report on the Audit of Financial Statements**

**Qualified Opinion**

We have audited the accompanying financial statements of **Bin Dowal Islamic Microfinance Bank (Yemeni Closed Joint Stock Company)**, which comprise the statement of financial position for the financial period ended December 31, 2022, the statement of income, statement of changes in equity, statement of cash flows for the period then ended, and explanatory notes to the financial statements (1-26) including a summary of significant accounting policies.

In our opinion, except of the effects of the matters described in the Basis of Qualified Opinion paragraph, the accompanying financial statements give a true and fair view of the statement of financial position of the **Bin Dowal Islamic Microfinance Bank (Yemeni Closed Joint Stock Company)** for the financial period ended December 31, 2022, and the results of its operations, its cash flows, for the period then ended in accordance with the Financial Accounting Standards (FAS) issued by Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"), the Shari'a rules and principles as determined by the Shari'a Supervisory Board, instructions issued by Central Bank of Yemen, and relevant local laws and instructions.

**Basis for qualified opinion**

1. We were appointed as auditors on January 21, 2023; therefore, we were unable to observe the physical count of cash at the end of the period, which appears in the statement of financial position by a total amount of YR 1,084,694,315 as of December 31, 2022, and we were unable to observe the physical count of property and equipment at a historical cost with a total amount of YR 145,660,087. As a result, we were unable to determine whether there are potential adjustments that may affect on the financial statements.
2. The bank's management did not apply financial accounting standard (30) Impairment of value, Credit Losses and High-Risk Liabilities so that the expected credit loss is not presented in accordance with the requirements of the standard, and as a result we were unable to determine the impact of applying this standard on the bank's financial statements.
3. The bank management did not make a provision for exposure of the foreign exchange position in the amount of 44,092,293 Yemeni riyals, which resulted in the appearance of net loss for the period in less and equity in excess of this amount.

We conducted the audit in accordance with the Auditing Standards for Islamic Financial Institutions "ASIFIs" issued by "AAOIFI". Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Bank in accordance with the Code of Ethics for Accountants and Auditors of Islamic Financial Institutions issued by "AAOIFI", and in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

# Independent Auditor's Report (Continued)

**To: The Shareholders' of**
**Bin Dowal Islamic Microfinance Bank**
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**Hadramout - Republic of Yemen**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

**Emphasis of Matters**

We draw attention to the note (25) to the accompanying financial statements which describes the impact of the continuing economic crisis and political turmoil in Yemen and their final resolution is unpredictable and may adversely affect the Yemeni economy and the operations of the bank. Our opinion is unqualified in respect of this matter.

**Management's responsibility for the financial statements**

The board of directors is responsible for the preparation and fair presentation of the financial statements in accordance with FAS issued by "AAOIFI", the Shari'a rules and principles as determined by the Shari'a Supervisory Board, instructions issued by Central Bank of Yemen, and relevant local laws and instructions, and for such internal control as the board of directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the board of directors is responsible for assessing the bank's ability to continue as a going concern, disclosing, as necessary, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the bank or to cease operations, or has no realistic alternative but to do so.

**Auditors' responsibilities for the audit of the financial statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of director.

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# Independent Auditor's Report (Continued)

**To: The Shareholders' of**
**Bin Dowal Islamic Microfinance Bank**
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- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

**Report on Other Legal and Regulatory Requirements**

Except of the mentioned matters described in the Basis of Qualified Opinion paragraph, we have obtained from management the information and clarifications that we deemed necessary for our audit. The bank keeps proper books of account, and the accompanying financial statements are in agreement what is contained in those records. We are not aware of any violations of microfinance bank law No (15) of 2009 , Yemen Commercial Companies Law No. (22) of 1997 and its amendments, and Islamic Bank law (21) of 1996 and the Banking Law (38) of 1998 or instructions issued by Central Bank of Yemen, which might have had a material impact on the business of the bank or its financial position during the financial period ended December 31, 2022 except for the following:

1. During the financial period ended on December 31, 2022 the bank did not maintain balances in the Central Bank of Yemen against clients' accounts in Yemeni Riyals and foreign currencies, and this is considered a violation of Banking Law No. (38) of 1998 and the instructions of the Central Bank of Yemen.
2. The bank did not complete the establishment of an internal audit and audit system until the end of the financial period ended on December 31, 2022 according to the guide to the internal audit system determined specified by the Central Bank of Yemen in Circular No. (6) for the year 1997.

**Grant Thornton Yemen**

**Ramzi Al-Ariqi**

**Aden - Republic of Yemen**
**May 3, 2023**

## Bin Dowal Islamic Microfinance Bank

(Yemeni Closed Joint Stock Company)

## Statement of financial position

For the financial period ended December 31, 2022

| | Notes | Dec. 31, 2022 YR |
|---|---|---|
| **Assets** | | |
| Cash on hand and reserve balances with Central bank of Yemen | 6 | 1,084,694,315 |
| Balances at banks | 7 | 8,337,414,352 |
| Financing Murabaha contracts transactions | 8 | 46,823,793 |
| Accounts receivable and other debit balances | 9 | 10,856,719 |
| Property and equipment | 10 | 135,144,508 |
| Intangible assets | 11 | 250,581,727 |
| **Total assets** | | 9,865,515,414 |
| **Liabilities and Equity** | | |
| **Liabilities** | | |
| Current accounts | 12 | 4,754,314,927 |
| Investments deposits and savings accounts | 13 | 199,767,718 |
| Accounts payable and other credit balances | 14 | 4,081,099 |
| **Total liabilities** | | 4,958,163,744 |
| Equity | | |
| Share Capital | 15 | 5,000,000,000 |
| Carrying loss | | (92,648,330) |
| Total equity | | 4,907,351,670 |
| Total liabilities and equity | | 9,865,515,414 |

| Acting Finance Manager | General Manager | Chairman |
|---|---|---|
| Mr. Mohammed Salmeen Al-Maari | Mr. Ahmed Abdullah Bahaj | Mr. Saeed Omar Al-Maari |

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**The accompanying notes from (1) to (26) form an integrated part of these financial statements**

## Bin Dowal Islamic Microfinance Bank
(Yemeni Closed Joint Stock Company)

## Statement of income
For the financial period from June 27, 2022 to December 31, 2022

| | Notes | For the financial period from June 27, 2022 to December 31, 2022 YR |
|---|---|---|
| Income from financing Murabaha contracts transactions | 16 | 2,797,317 |
| Income from commission and banking service fees | 17 | 2,415,683 |
| Less: | | |
| Provision for Murabaha contracts transactions | | (3,196,225) |
| Return on investments deposits and savings accounts' holders | 13 | (340,468) |
| **Net operating income** | | 1,676,307 |
| Gains of foreign currencies exchange | | 45,038,853 |
| Establishment expenses | | (74,436,047) |
| Staff costs | 18 | (17,357,631) |
| Other expenses | 19 | (16,740,292) |
| Depreciation of property and equipment | 10 | (10,515,579) |
| Amortization of intangible assets | 11 | (20,512,157) |
| Other income | | 198,216 |
| **Net loss for the period before tax** | | (92,648,330) |
| Income tax for the period | | - |
| **Net loss for the period after tax** | | (92,648,330) |
| **Return per share from the net loss for the period** | 20 | (185.30) |

| Acting Finance Manager | General Manager | Chairman |
|---|---|---|
| Mr. Mohammed Salmeen Al-Maari | Mr. Ahmed Abdullah Bahaj | Mr. Saeed Omar Al-Maari |

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# Bin Dowal Islamic Microfinance Bank
(Yemeni Closed Joint Stock Company)

## Statement of changes in equity
For the financial period from June 27, 2022 to December 31, 2022

| | Share Capital YR | Carry losses YR | Total YR |
|---|---|---|---|
| Paid-up capital | 5,000,000,000 | – | 5,000,000,000 |
| Net loss for the period | – | (92,648,330) | (92,648,330) |
| **Balance as at December 31, 2022** | **5,000,000,000** | **(92,648,330)** | **4,907,351,670** |

| Acting Finance Manager | General Manager | Chairman |
|---|---|---|
| Mr. Mohammed Salmeen Al-Maari | Mr. Ahmed Abdullah Bahaj | Mr. Saeed Omar Al-Maari |

# Bin Dowal Islamic Microfinance Bank

(Yemeni Closed Joint Stock Company)

## Statement of cash flows

For the financial period from June 27, 2022 to December 31, 2022

| | For the financial period from June 27, 2022 to December 31, 2022 YR |
|---|---|
| **Cash flows from operating activities** | |
| Net loss for the period before tax | (92,648,330) |
| **Adjustments of:** | |
| Depreciation of property and equipment | 10,515,579 |
| Amortization of intangible assets | 20,512,157 |
| Provisions provided during the year | 3,196,225 |
| **Operating loss before changes in working capital** | (58,424,369) |
| **Changes in:** | |
| Financing Murabaha contracts transactions | (50,020,018) |
| Accounts receivable and other debit balances | (10,856,719) |
| Current accounts | 4,754,314,927 |
| Investments deposits and savings accounts | 199,767,718 |
| Accounts payable and other credit balances | 4,081,099 |
| **Net cash flows from operating activities** | 4,838,862,638 |
| **Cash flows from investing activities** | |
| Payments to acquisition of property and equipment | (145,660,087) |
| Payments to acquisition intangible assets | (271,093,884) |
| **Net cash flows used in investing activities** | (416,753,971) |
| **Cash flows from financing activities** | |
| Paid-up capital | 5,000,000,000 |
| **Net cash flows from financing activities** | 5,000,000,000 |
| Net change in cash and cash equivalents during the period | 9,422,108,667 |
| Cash and cash equivalents at the beginning of the period | - |
| **Cash and cash equivalents at the end of the period** | 9,422,108,667 |
| **Cash and cash equivalents at the end of the period consist of:** | |
| Cash on hand | 1,084,694,315 |
| Balances with the Central Bank of Yemen | 8,337,414,352 |
| | 9,422,108,667 |

| Acting Finance Manager | General Manager | Chairman |
|---|---|---|
| Mr. Mohammed Salmeen Al-Maari | Mr. Ahmed Abdullah Bahaj | Mr. Saeed Omar Al-Maari |

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The accompanying notes from (1) to (26) form an integrated part of these financial statements

# 1. General overview

**Bin Dowal Islamic Microfinance Bank (Yemeni Closed Joint Stock Company)**, was established in accordance with Commercial Companies Law No. (22) of 1997, and its amendments and Law No. (15) of 2009 on microfinance banks on December 25,2021. It was registered in the Commercial Register on January 3, 2022, under register No. (34), and the bank obtained the final license to start practicing the activity according to the Central Bank of Yemen letter No. (461/CBY/ 2022) on June 27, 2022.

The bank operates its banking activities in the Republic of Yemen through the head office in Mukalla city in the Hadramout governorate and has only one branch (Jul Masha branch) in the same location of head office.

# 2. Nature of activity

The main purposes of the **Bin Dowal Islamic Microfinance Bank (Yemeni Closed Joint Stock Company)** are to engage in financial and banking services, which are to grant Murabaha as according to the Banking Law, the Islamic Banks Law and the Microfinance Banks Law accordance with the Islamic Sharia's rules.

# 3. Basis of the financial statements preparation

## 3.1 Statement of compliance

The financial statements are prepared in accordance with the Financial Accounting Standards issued by Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"), the Shari'a rules and principles as determined by the Shari'a Board of the Bank and instructions issued by the Central Bank of Yemen (CBY) and relevant local instructions. The bank has adopted the International Financial Reporting Standards (IFRS) for the matters that are not covered by AAOIFI standards.

The financial statements for the Period ended on December ,31 2022 were approved by the Board of Directors on May 3 ,2023, Note No. (26)

## 3.2 Basis of preparation

The financial statements have been prepared on historical cost.

## 3.3 Functional and presentation currency

The financial statements are prepared and presented in Yemeni Rials (YR) (the bank's functional currency).

## 3.4 Significant accounting judgments and estimates

The standard requires to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, financial liabilities at the financial statements date, as well as the values of revenues and expenses.

They are developed based on past experience and expectations of future events and on other factors that the bank management considers reasonable under the prevailing circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected. Information about significant judgments and estimates applied in accounting policies that have a significant impact on balances are presented in the financial statements.

## 4. Changes in accounting policies

The accounting policies applied by the Bank in accordance with the Islamic Shari'a rules, principles and regulations for Islamic Financial Institutions issued by the Accounting and Auditing Organization for Islamic Financial Institutions, and there are no amendments or new updates to these standards.

## 5. Summary of accounting policies

### 5.1 New accounting standards and their interpretations

### 5.1.1 New standards, amendments, and interpretations effective from or after January 1, 2022

- **Financial Accounting Standard No. (37) "preparing financial reporting for Al-wakafia Institutions**

AAOIFI issued FAS (37). "Preparing financial reporting for Al-wakafia institutions" in 2020. The objective of this standard is to issue principles for preparing financial reports from Al-wakafia Institutions which established to work in compliance with Islamic Shari'a rules, it's expected that the application of this comprehensive standard will improve the effectiveness and efficiency of Al-awkaf processes and increase the advantage for beneficiaries and encourage the accountability principle and good management.

There was no significant impact on the Bank when they apply this standard.

- **Financial accounting standard no (38): "Wa'ad, Khiyar and Tahawwut"**

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

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

a. "Ancillary Wa'ad or Khiyar" which is related to a structure of transaction carried out using other products i.e. Murabaha, ljarah Muntahia Bittamleek, etc.; and
b. "Product Wa'ad and Khiyar" which is used as a standalone Shariah compliant arrangement.

There was no significant impact on the Bank when they apply this standard.

### 5.1.2 New standards, amendments and interpretations issued but not applied yet.

The bank has not yet applied the new and amended financial accounting standards that have been issued but have not yet become effective:

- **Financial Accounting Standard No. (39) Financial Reporting for Zakat**

AAOIFI has issued FAS (39) preparing the Financial Reporting for Zakat in 2022. The objective of this standard is to establish principles of financial reporting related to Zakat attributable to different stakeholders of an Islamic financial Institution. This standard supersedes FAS (9) Zakat and is effective for the financial reporting periods beginning on or after 1 January 2023 with an option to early adopt.

This standard shall apply to institution with regard to the recognition, presentation and disclosure of Zakat attributable to relevant stakeholders. While computation of Zakat shall be applicable individually to each entity within the institution, this standard shall be applicable on all financial statements that are independent and separate from the institution.

This standard does not prescribe the method for determining the Zakat base and measuring Zakat due for a year. An institution shall refer to relevant authoritative guidance for determination of Zakat base and to measure Zakat due for the period.

The Bank is currently assessing the impact of applying the standard.

- **Financial Accounting Standard No. (40) "preparing the financial reporting for Islamic Financing's nawafidh.**

AAOIFI issued FAS (40) "preparing financial reporting for Islamic financing's nawafidh" "in 2021. The objective of this revised standard is to establish requirements of preparing financial reports for Islamic financing nawafidh, and this standard has improved and supersedes FAS (18) the Islamic financial services that delivered by commercial financial Institutions and this Standard is effective for the financial period beginning on or after January 1, 2024 with an option to early adopt.

There is no impact from this standard on the bank's financial statements due to the bank provides banking services in Islamic formats.

- **Financial Accounting Standard No. (1) - "General Presentation and Disclosures in Financial Statements"**

AAOIFI has issued the revised FAS (1) "General Presentation and Disclosures in the Financial Statements" in 2021. This standard describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS (1). It is applicable to all the Islamic Financial Institutions and other institutions following AAOIFI FAS's. This standard is effective for the financial reporting periods beginning on or after January 1, 2024 with an option to early adopt.

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

Some of the significant revisions to the standard are as follows:

- Revised conceptual framework is now integral part of the AAOIFI FAS's;
- Definition of Quasi equity is introduced;
- Definitions have been modified and improved;
- Concept of income has been introduced;
- Institutions other than Banking institutions are allowed to classify assets and liabilities as current and non-current;
- Disclosure of Zakat and Charity have been relocated to the notes;
- True and fair override has been introduced;
- Treatment for change in accounting policies, change in estimates and correction of errors has been introduced;
- Disclosures of related parties, subsequent events and going concern have been improved;
- Improvement in reporting for foreign currency, segment reporting;
- Presentation and disclosure requirements have been divided into three parts. First part is applicable to all institutions, second part is applicable only to banks and similar IFI's and third part prescribes the authoritative status, effective date an amendment to other AAOIFI FAS's; and
- The illustrative financial statements are not part of this standard and will be issued separately.

The Bank is assessing the impact of adoption of this standard and expects changes in certain presentation and disclosures in its financial statements.

- **Financial Accounting Standard No. (41) Interim Financial Reports**

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

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

### 5.1.3 New standards, amendments, and interpretations issued and effective but not applied yet.

- **Financial Accounting Standard No. (30) "impairment, credit losses and onerous commitments"**

AAOIFI issued FAS (30) "Impairment, Credit Losses and Onerous Commitments" in 2017. The objective of this standard is to establish the principles of accounting and financial reporting for the impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions (the institutions), and provisions against onerous commitments enabling in particular the users of financial statements to fairly assess the amounts, timing and uncertainties with regard to the future cash flows associated with such assets and transactions. FAS (30) will replace FAS (11) Provisions and Reserves and parts of FAS (25) Investment in Sukuk, shares and similar instruments that deal with impairment.

FAS (30) classifies assets and exposures into three categories based on the nature of risks involved (i.e. credit risk and other risks) and prescribes three approaches for assessing losses for each of these categories of assets (1) Credit Losses approach, (2) Net Realizable Value approach ("NRV") and (3) Impairment approach.

The standard was not applied by the Bank's management to the financial statements as of December 31, 2022.

- **Financial Accounting Standard No. (32): "Ijarah"**

AAOIFI issued FAS (32) "Ijarah" in 2020, this standard is effective for financial periods beginning on or after 1 January 2021. The standard supersedes the existing FAS (8) "Ijarah and Ijarah Muntahia Bittamleek".

FAS (32) sets out principles for the classification, recognition, measurement, presentation and disclosure of Ijarah (Ijarah asset, including different forms of Ijarah Muntahia Bittamleek) transactions entered into by the Islamic financial institutions as a lessor and lessee. The Bank has not applied FAS (32) "Ijarah" from the beginning of January 1, 2021.

### 5.2 Revenue recognition

Income from financing and investment activities is recognized as follows:

### 5.2.1 Financing contracts operations

Profit on financing Murabaha and contracts are recorded on accrual basis as all profits at the completion of Murababa contract are recorded as deferred revenues, and taken into the income statement or restricted investment accounts' holders on the basis of the finance percentage using the straight- line method over the term of the contract. Profits from non-performing financing contracts are discontinued in the statement of income, in line with the instructions of the Central Bank of Yemen.

### 5.2.2 Commission income and services fees

Commission income and bank service fees are recognized when performing associated services.

### 5.2.3 Basis of distribution of unrestricted investments profits between equity shareholders' and unrestricted investment account holders

In this regard, the Bank implements which can be summarized as follows:

- Adopting the accounting separation method in the distribution of profits.
- Profit realized from financing returns, investment in Sukuk and deposits returns during the year represents the net profit available for distribution among shareholders and holders of unrestricted investment accounts.
- Calculating net share of profit for the holders of unrestricted investment accounts on a daily basis balance for deposits during the fiscal year after deducting the financing contracts provision, and the agreed and announced Bank's share of Mudaraba.
- Giving priority in the profit distribution first to holders of unrestricted investment accounts in order not to mix between the funds related to unrestricted investment accounts holders with the Bank's money for the purpose of investment.
- Arranging the investments in the same order of priority (i) the depositors' investments, (ii) restricted investment (iii) Bank's investment.

### 5.3 Financial assets

All financial assets are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned financial investments, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss (FVTPL), which are initially measured at fair value, if any.

Subsequent to initial recognition, all financial assets are measured at impaired cost or fair value.

### 5.3.1 Classification of financial assets

For the purposes of classifying financial assets an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative pattern instruments presented as equity by the issuer. All other non-derivative financial assets are debt instruments.

The Bank classifies its financial assets in the following categories: held-to maturity investments (financial assets carried at amortized costs, in particular deposits with Banks), financing contracts transactions. Management determines the classification of its investments at initial recognition.

### 5.3.2 Financial assets at amortized cost and effective interest method

The financial debts measured at the amortized cost if:

- Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and
- Their contractual terms give the right at a specific date to get the contractual cash flow and its interest.

The financial assets that meet the above terms are initially measured at fair value, plus transaction costs (other than those financial assets classified as at FYTPL). Held-to –Maturity investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period identified for the asset. The effective returns rate is the rate which deducts future cash receipts through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition, income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, if any.

### 5.3.3 Financing Murabaha Transactions and accrued Returns

Debts related to financing Murabaha transactions are presented on the statement of financial position net of their related provisions and deferred revenue. Profits on Murabaha contracts are recorded on the accrual basis as all profits at the completion of Murabaha contracts are recorded as deferred revenue, and taken into the income statement, depending on the finance percentage, using the straight-line method over the term of contract.

### 5.3.4 Impairment of financial assets

The bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of assets is impaired includes observable data that comes to the attention of the bank about the following loss events:

1. Significant financial difficulty of the issuer or obligor.
2. A breach of contract, such as a default or delinquency in interest or principal payments.
3. The bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider.
4. It becomes probable that the borrower will enter bankruptcy or other financial reorganization.
5. The disappearance of an active market for that financial asset because of financial difficulties.
6. Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets including:

- local economic conditions that correlate with defaults on the assets in the group.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that, no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impertinent.

If there is objective evidence that an impairment loss on financing contracts carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial original effective returns rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the bank and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The Bank adheres to apply the central Bank of Yemen instruction for the Basis of Classification of Assets and Liabilities issued under letter No. (7761) dated February 7, 2010, which was confirmed by circular No. (4) for the year 2011 and circular No. (a) for the year 2015. According to this circulate; a provision for periodic detailed financing contracts operations is formed for financing balances
As a result, the provision is calculated using the following rates at the minimum:

| Financing Type | Percentage |
|---|---|
| Performing debts | 5% |
| Observable debts | 10% |
| Substandard debts | 25% |
| Doubtful debts | 50% |
| Bad debts | 100% |

Debts related to financing Murabaha contracts transactions presented on the statements of financial position by net value after deduction their related provisions and deferred revenue.

If a financing is uncollectible, and all necessary legal procedures have been completed and the final loss has been determined, the related financing impairment provision is written off, and written off is also based on the instructions issued by the Central Bank of Yemen in accordance with of its examination. Such financing shall be written off after completing all necessary procedures and determining the amount of the loss. Subsequent collections of amounts previously written off reduce the amount of the provision of impairment in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be elated objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognized in the statement of income.

### 5.3.5 Derecognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

## 5.4 Financial liabilities

### 5.4.1 Classified as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

### 5.4.2 Equity instruments

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recognised at the proceeds received after deducting direct issue costs.

### 5.4.3 Other Financial liabilities

Other financial liabilities, including borrowings and customer deposits (saving accounts and investment deposits), are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expenses recognized on an effective yield basis in the statement of operating activities.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter future periods.

### 5.4.4 Derecognition of financial liability

The Bank derecognizes financial liabilities when, the Bank’s obligations are discharged, cancelled, expire or pay it off.

## 5.5 Cash and cash equivalents

For the purposes of preparing the cash flow statement, cash and cash equivalents consist of cash balances, with less than three months maturity from the date of acquisition including cash on hand and deposits at banks, other than cash balances with CBY, and in reserve balances rate framework.

## 5.6 Property and equipment

Property and equipment which are used for the purposes of providing services or for management purposes are stated at the historical cost less accumulated depreciation and any identified impairment loss. Cost includes the purchase price and directly associated costs of bringing the asset to a working condition for its intended use.

Depreciation is recognized in the statement of income over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year- end with the effect of any change in estimates accounted for a prospective method.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of income.

### 5.6.1 Useful lives of property, and equipment

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, the calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

Property and equipment is stated at cost less accumulated depreciation and impairment losses, if any, Depreciation is charged to the statement of income on the straight-line basis over the estimated useful lives of items of property and equipment. The depreciation method, useful lives and residual value, if any, are reassessed annually by the Bank's management.

The estimated useful lives are as follows:

| | |
|---|---|
| Furniture and fixtures | 5 years |
| Electronic devices and equipment | 5 years |
| Electric power generators | 5 years |

No depreciation is calculated for the projects in progress until they are transferred to "property and equipment" as they are "ready for use".

### 5.7 Intangible assets

Intangible assets comprise of the value of automated software and the trademarks. Intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follow:

| | |
|---|---|
| Systems and software | 5 years |

### 5.8 Impairment of tangible and intangible assets

At each financial position date, the bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any), where it is not possible to estimate the recoverable amount of an individual asset, the bank's management estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell or value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed than the carrying amount that would have been determined if the impairment loss had not been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in statement of income.

**5.9 Equity of investments deposits and savings accounts' holders**

Funds held by the Bank in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorizes the Bank to invest the account holder, funds in a manner which the Bank deems appropriate without setting any conditions as to where, how and for what purpose the funds should be invested.

Return due on unrestricted investment accounts is determined on the basis of Mudaraba contract, which determines profit (loss) sharing basis resulting from various Islamic transactions during the period.

**5.10 Taxation**

The Bank's operations within the Republic of Yemen are subject to taxation in accordance with the prevailing tax laws and regulations of the Republic of Yemen. Income tax and salary tax are calculated in accordance with Income Tax Law No. (17) for the year 2010, and the provision for tax liabilities is made after conducting the necessary study.

**5.11 Provisions**

Provisions are recognized when the Bank has present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation prospectively.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date as a provision, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**5.12 Statutory reserve**

According to the requirements of Law No. (15) of 2009 regarding microfinance banks and the requirements of the Board of Directors of the Central Bank of Yemen - Aden Decision No. (9/2/2022), microfinance banks must establish a statutory reserve and retain it from the annual profits at a rate of not less than 25% of the net Its profits after retaining the necessary amounts for taxes and other potential liabilities, and retaining the mentioned percentage before distributing profits or a share thereof or transferring them to their main headquarters abroad in the case of foreign bank branches, the bank's management did not retain a statutory reserve given that the result of the bank's activity is loss.

**5.13 Zakat**

Zakat is calculated according to the prevailing laws and regulations in the Republic of Yemen i.e. Law No. (2), for the year 1999 concerning Zakat. Zakat provision is calculated and paid to the respective government authority.

### 5.14 Transactions in foreign currencies

The Yemeni Riyal is used to record accounting transactions. As for transactions in foreign currencies other than the Yemeni Riyal, they are converted using the approximate rates when they occur, and any differences resulting from the conversion process are shown in the statement of income. The financial balances in foreign currencies are converted into Yemeni riyals at the end of the year using the closing rates of the Central Bank of Yemen on that date, and any resulting gains or losses are shown in the statement of income.

### 5.15 Statement of cash flows

The Bank follows the indirect method in the presentation of the statement of cash flows where the net profit or loss is adjusted to reflect the effect of each of the operations of non-monetary and any deferred charges or due related to proceeds or cash payments in the past or future, as well as any items income and expenses resulting from the cash flows related to investing and financing activities.

### 5.16 Revenue prohibited by Shari'a rules and principles

The Bank records revenue in violation of Sahri'a rules and principles, under "accounts payable and other credit balances". Such revenues are disbursed in aspects and activities approved by the Bank Sahri'a Supervisory board.

### 5.17 Supervision of the Central Bank of Yemen

The Bank's activities are subject to the supervision of the Central Bank of Yemen, according to the prevailing microfinance banking laws and regulations in the Republic of Yemen.

### 5.18 Shari'a Supervisory Board

The Bank is subject to the supervision of a Shari'a Supervisory Board, consisting of three members appointed by the Ordinary General Assembly of the Bank and their responsibility is restricted to the oversight of the Islamic related aspects of the Bank's activities according to the rules of Islamic Shari'a.

### 5.19 Functional and presentation currency

Items included in the financial statements are measured by using main economic currency in the country in which Bank operates ("functional currency") and thus the financial statements are presented in Yemeni Riyals as functional and presentation currency of the Bank.

Transactions in other currencies are translated to the YR "functional currency" based on the prevailing exchange rate at the date of the transaction, and the gains or losses resulting from translation are taken to the statement of income. Balances of monetary assets and liabilities in other currencies at the end of financial year are translated at the closing price of Central Bank of Yemen at that date.

## 6. Cash on hand and reserve balances with Central Bank of Yemen

This item consists of the following for the financial period ended on December 31:

| | 2022 YR |
|---|---|
| Cash on hand - local currency | 1,033,650,700 |
| Cash on hand - foreign currency | 51,043,615 |
| | **1,084,694,315** |
| Mandatory reserve with CBY - local currency | - |
| Mandatory reserve with CBY - foreign currency | - |
| | **-** |
| | **1,084,694,315** |

According to Banking Law No. 38 of 1998 and the instructions of the Central Bank of Yemen, the bank must maintain balances in the Central Bank of Yemen against clients' accounts in Yemeni riyals and foreign currencies (without return), and this balance is not available for the daily use of the bank. However, the bank did not maintain balances with the Central Bank Yemeni during the financial period ended on December 31, 2022.

## 7. Balances at banks

This item consists of the following for the financial period ended on December 31:

| | 2022 YR |
|---|---|
| Current accounts with Central Bank of Yemen - local currency | 8,337,414,352 |
| | **8,337,414,352** |

## 8. Financing Murabaha contracts transactions

This item consists of the following for the financial period ended on December 31:

| | Notes | 2022 YR |
|---|---|---|
| Financing Murabaha contracts transactions | | 59,779,878 |
| **Less:** Deferred revenues | | (9,759,860) |
| **Less:** Provision for financing Murabaha contracts transactions | 8.1 | (3,196,225) |
| | | **46,823,793** |

The value of non-performing finance contracts are YR 4,144,618 for the financial period ended on December 31, 2022 distributed as follows:

| | 2022 YR |
|---|---|
| Bad debts | – |
| Watch list debts | 4,144,618 |
| Substandard debts | – |
| Doubtful debts | – |
| | **4,144,618** |

### 8.1 Provision for financing Murabaha contracts transactions

In accordance with Central Bank of Yemen instructions, funding provisions are classified into specific provisions and unspecified provisions (general provision for regular debts and facilities). In accordance with the instructions of the Central Bank of Yemen, the provision shall be calculated at not less than (5%) of all regular and indirect financing, after deducting the cash insurance, if any.

The following table shows the movement in the provision for financing Murabaha contracts transactions:

| | Specific YR | General YR | Total YR |
|---|---|---|---|
| Provided during the period | 414,462 | 2,781,763 | 3,169,225 |
| | **414,462** | **2,781,763** | **3,169,225** |

## 9. Accounts receivable and other debit balances

This item consists of the following for the financial period ended on December 31:

| | 2022 YR |
|---|---|
| Inventory stationeries | 8,310,800 |
| Prepaid expenses | 2,545,919 |
| | **10,856,719** |

## 10. Property and equipment

This item consists of the following for the financial period ended on December 31:

| | Furniture and Fixtures YR | Electronic Devices and Equipment YR | Electric Power Generators YR | Total YR |
|---|---|---|---|---|
| **Cost** | | | | |
| Additions | 66,207,679 | 73,584,408 | 5,868,000 | 145,660,087 |
| Disposals | - | - | - | - |
| **Balance at December 31, 2022** | **66,207,679** | **73,584,408** | **5,868,000** | **145,660,087** |
| **Accumulated depreciation** | | | | |
| Depreciation for the period | 4,081,549 | 5,945,030 | 489,000 | 10,515,579 |
| Disposals | - | - | - | - |
| **Balance at December 31, 2022** | **4,081,549** | **5,945,030** | **489,000** | **10,515,579** |
| **The carrying amount as at December 31, 2022** | **62,126,130** | **67,639,378** | **5,379,000** | **135,144,508** |

## 11. Intangible assets

This item represents amounts paid for the purchase of automated systems and software used by the Bank in its operations. This item consists of the following for the financial period ended on December 31:

| | systems and software 2022 YR |
|---|---|
| **Cost** | |
| Additions | 271,093,884 |
| Disposals | - |
| | **271,093,884** |
| **Amortization** | |
| Charge for the year | (20,512,157) |
| Disposals | - |
| | **(20,512,157)** |
| **The carrying amount as at December 31, 2022** | **250,581,727** |

## 12. Current accounts

This item consists of the following for the financial period ended on December 31:

| | 2022 YR |
|---|---|
| Current accounts - local currency | 4,693,818,814 |
| Current accounts - foreign currency | 60,496,113 |
| | **4,754,314,927** |

## 13. Investment deposits and savings accounts

This item consists of the following for the financial period ended on December 31:

| | | 2022 YR |
|---|---|---|
| Investment deposits - local currency | | 164,720,000 |
| Investment deposits - foreign currency | | 22,940,450 |
| | | **187,660,450** |
| Savings accounts - local currency | | 5,500,000 |
| Savings accounts - foreign currency | | 6,266,800 |
| | | **11,766,800** |
| Return of investments deposits and savings accounts' holders | 13,1 | 340,468 |
| | | **199,767,718** |

### 13.1 Return of investments deposits and savings accounts' holders

All investment deposits are investment deposits for a period of one year. Returns for those accounts' holders have been calculated based on the management's suggestion, while no returns have been calculated for saving account holders for the period ended on December 31, 2022. The investments return percentage is as follows:

| | 2022 | |
|---|---|---|
| | YR<br>% | Foreign Currency<br>% |
| Investments deposits for one year | 6% | 2% |
| Savings accounts | - | - |

## 14. Accounts payable and other credit balances

This item consists of the following for the financial period ended on December 31:

| | 2022<br>YR |
|---|---|
| Accrued professional fees | 2,400,000 |
| Accrued payroll taxes | 1,645,498 |
| Other | 35,601 |
| | **4,081,099** |

## 15. Share capital

The bank's authorized and paid-up capital is YR 5 billion for the financial period ended on December 31, 2022, distributed over 500,000 shares of nominal value of YR 10,000 per share, distributed among the shareholders as follows:

| | Number of Shares<br>Share | Share value<br>YR | Total shares value<br>YR | Total paid up capital<br>YR |
|---|---|---|---|---|
| Abdullah Omar Saeed Al-Maari | 110,000 | 10,000 | 1,100,000,000 | 1,100,000,000 |
| Saeed Omar Saeed Al-Maari | 100,000 | 10,000 | 1,000,000,000 | 1,000,000,000 |
| Ali Omar Saeed Bin Dowal | 95,000 | 10,000 | 950,000,000 | 950,000,000 |
| Khaled Abdullah Omar Al-Maari | 75,000 | 10,000 | 750,000,000 | 750,000,000 |
| Mohammed Abdullah Omar Al-Maari | 50,000 | 10,000 | 500,000,000 | 500,000,000 |
| Ebrahim Abdullah Omar Al-Maari | 20,000 | 10,000 | 200,000,000 | 200,000,000 |
| Abdulrahman Saeed Omar Al-Maari | 20,000 | 10,000 | 200,000,000 | 200,000,000 |
| Omar Abdullah Omar Al-Maari | 20,000 | 10,000 | 200,000,000 | 200,000,000 |
| Abood Mohammed Salmeen | 10,000 | 10,000 | 100,000,000 | 100,000,000 |
| | **500,000** | **10,000** | **5,000,000,000** | **5,000,000,000** |

## 16. Income from financing Murabaha contracts transactions

This item consists of the following for the financial period from June 27, 2022 to December 31, 2022:

| | For the financial period from June 27, 2022 to December 31, 2022<br>YR |
|---|---|
| Income from financing Murabaha contracts transactions - local currency | 755,333 |
| Income from financing Murabaha contracts transactions - foreign currency | 2,041,984 |
| | **2,797,317** |

## 17. Income from commission and banking service fees

This item consists of the following for the financial period from June 27, 2022 to December 31, 2022:

| | For the financial period from June 27, 2022 to December 31, 2022 YR |
|---|---|
| Income from commission and banking service fees - local currency | 1,266,200 |
| Income from commission and banking service fees - foreign currency | 1,149,483 |
| | **2,415,683** |

## 18. Staff costs

This item consists of the following for the financial period from June 27, 2022 to December 31, 2022:

| | For the financial period from June 27, 2022 to December 31, 2022 YR |
|---|---|
| Basic salaries | 10,253,450 |
| Allowances and incentives | 6,975,481 |
| Social securities | 128,700 |
| | **17,357,631** |

## 19. Other expenses

This item consists of the following for the financial period from June 27, 2022 to December 31, 2022:

| | For the financial period from June 27, 2022 to December 31, 2022 YR |
|---|---|
| Professional and consulting fees | 7,193,160 |
| Fees and licenses | 3,354,720 |
| Office supplies and stationery | 1,944,152 |
| Consumables | 1,165,663 |
| Electricity | 585,860 |
| Maintenance and repairs | 446,000 |
| Advertisements | 428,400 |
| Fuel and oils | 390,525 |
| Insurance expenses | 295,885 |
| Communication and Internet | 119,000 |
| Others | 816,927 |
| | **16,740,292** |

## 20. Return per share from the net loss for the period

This item consists of the following for the financial period from June 27, 2022 to December 31, 2022:

| | For the financial period from June 27, 2022 to December 31, 2022 YR |
|---|---|
| Net loss for the period - YR | (92,648,330) |
| Number of Shares | 500000 |
| **Return per share from the net loss for the period -YR** | **(185.30)** |

## 21. Financial instruments and related risk management

### 21.1 Fair value information

The bank's financial instruments consist of financial assets and liabilities. Financial assets include cash balances, current accounts, at banks and financing Murabaha contracts transactions. Financial liabilities include current accounts and investment accounts (time deposits and savings).

Based on the evaluation method described below, the bank management considers that the fair values of all financial instruments included in the statement of financial position for the financial period ended on December 31, 2022 and it does not differ materially from their carrying values.

### 21.2 Estimate of fair values

The following summarizes the main methods and assumptions used in estimating the fair values of assets and liabilities.

### 21.3 Financing contracts operations

The fair value calculated based on an expected future cash flows discounted at the main funding and returns, and then assumed a payment of funding in contractual payment dates when applicable. The future cash flow was estimated by the credit risk and any indication of impairment in consideration, and the future cash flow was estimated of any similar fund classifications on the basis of the portfolio and it discounted at the current rates for similar funding provided for new customers with similar credit profiles. Estimated fair values reflect changes in credit status since the date of funding submission, in addition the changes was reflected in interest rates in the case of financing with fixed rates of returns.

### 21.4 Current and savings accounts

For current accounts and savings accounts that do not have specific maturity periods and the fair value is the amount payable on demand at the date of the statement of financial position.

### 21.5 Other financial instruments on the financial position

The fair value of all other financial instruments in the statement of financial position approximate to their carrying amounts.

### 21.6 Fair value against book value

The fair value of financial assets and liabilities equivalent to approximately its book value as shown in the statement of financial position.

The following table shows a comparison between the book value and the fair value of the financial instruments of the Bank as presented in the financial statements for the financial period ended on December 31:

| | 2022 Net Book Value YR | Fair Value YR |
|---|---|---|
| **Financial assets** | | |
| Cash on hand and reserve balances with Central Bank of Yemen | 1,084,694,315 | 1,084,694,315 |
| Balances at Banks | 8,337,414,352 | 8,337,414,352 |
| Financing Murabaha contracts transactions | 46,823,793 | 46,823,793 |
| Accounts receivable and other debit balances | 10,856,719 | 10,856,719 |
| **Financial liabilities** | | |
| Current accounts | 4,754,314,927 | 4,754,314,927 |
| Investment deposits and savings accounts | 199,767,718 | 199,767,718 |
| Accounts payable and other credit balances | 4,081,099 | 4,081,099 |

- The table does not include the fair value of assets and non-financial liabilities.
- Financial instruments whose fair values approximate their book values are cash financial assets and liabilities or which their maturity of less than three months and whose book values approximate their fair values.

## 22. Risk management related to financial instruments

The inherent risks relating to the various activities and operations of the Bank are managed through continuous procedures for identifying, measuring and controlling them, in addition, to other control methods to remain within the permissible limits, Risk management is an important process to ensure the continuity of the Banks profitability, and each individual bears the risks which are under his or her responsibility for the continuity of the profitability of the Bank. The risk is monitored and controlled by monitoring the permitted limits for each type of risk, these limits reflect the business strategy of the Bank and the various market factors surrounding it, as well as the acceptable level of risk with emphasis on specific financial sectors, where information is collected from different departments of the Bank and analyzed for early identification of the expected risks that may result. This information is presented to the Board of Directors responsible for the identification and control of risks, as well as the direct responsibility of each of the relevant business departments, the Bank is exposed to credit risks, operating risks and other risks.

### 22.1 Credit risk

Credit risk is the risk that the customer or counterparty will be unable to meet its contracted financial obligations resulting in insolvency and/ or financial loss. Credit risk arises in the ordinary course of business of the Bank.

Financing contract transactions and related debts and the rights and obligations of third parties are financial assets at risk of inability of debtors to pay part or all of them on due dates.

As part of its efforts to develop business volume and increase its investment portfolio, the Bank is committed to adopting the highest standards of credit standards and adopting the best methods and techniques in managing credit risk that will maintain the quality of the investment portfolio and enjoy high quality.

In this context, the Bank is strengthening the institutional frameworks governing credit management through constantly updating and developing policies and procedures.

The Bank shall also abide by the instructions of the Central Bank of Yemen issued in letter no (7761) dated February 7, 2010 regarding classification of assets and liabilities, a provision for financing is provided in addition to a percentage of general risk calculated from the total investment portfolio in the light of periodic detailed studies of funding balances.

The Bank follows the following procedures reduce credit risk:

- Prepare credit studies on customers and determine credit risk rates related to this, before dealing with them.
- Obtain sufficient guarantees to reduce the risk that may arise in the event of a customer default.
- Follow-up and periodic study of customers with a view to assessing their financial and credit positions, as well as estimating the required provisions for debts and irregular balances, if any.
- Distribute funding operations to different sectors to avoid risk concentration.

The following table shows the maximum exposure to credit risk of the financial position components and shows the maximum risk in total without taking into account the mitigating factors of the risk effect using guarantee agreements before deducting any guarantee:

| | **2022**<br>**YR** |
|---|---|
| **Assets** | |
| Financing Murabaha contracts transactions | 46,823,793 |
| **Total exposure to credit risk** | **46,823,793** |

The 2022 is the first year of the Bank's activity and the Bank seeks when begin expanding in the coming years by manages risk concentrations through the distribution of financing operations by different geographical locations and the degree of customer concentration. The following tables show the distribution of assets and liabilities as at the date of the financial statements by geographical location of the different economic sectors and the distribution of those financial instruments by customer concentration as at the date of the financial statements

**Distribution of assets, liabilities based on economic sectors**

| | **2022** | | | | |
|---|---|---|---|---|---|
| **Description** | **Commercial**<br>**YR** | **Agriculture Fishing and**<br>**YR** | **Financial**<br>**YR** | **Individuals & Others**<br>**YR** | **Total**<br>**YR** |
| **Assets** | | | | | |
| Cash on hand | – | – | 1,084,694,315 | – | 1,084,694,315 |
| Balances with Central Bank of Yemen | – | – | 8,337,414,352 | – | 8,337,414,352 |
| Financing Murabaha contracts transactions (Net) | 28,084,571 | – | – | 18,739,222 | 46,823,793 |
| **Liabilities** | | | | | |
| Current accounts | – | – | 4,754,314,927 | – | 4,754,314,927 |
| Investments deposits and savings accounts | – | – | 199,767,718 | – | 199,767,718 |

**Distribution of assets, liabilities based on geographical locations**

| Description | 2022 Republic of Yemen YR | Other Geographical Locations | Total YR |
|---|---|---|---|
| **Assets** | | | |
| Cash on hand | 1,084,694,315 | – | 1,084,694,315 |
| Balances with Central Bank of Yemen | 8,337,414,352 | – | 8,337,414,352 |
| Financing Murabaha contracts transactions (Net) | 46,823,793 | – | 46,823,793 |
| **Liabilities** | | | |
| Current accounts | 4,754,314,927 | – | 4,754,314,927 |
| Investments deposits and savings accounts | 199,767,718 | – | 199,767,718 |

## 22.2 Liquidity risk

Liquidity risk arises from cash flows generated by assets and liabilities, which are not consistent in currency, size and term, thereby creating financing needs which potentially cannot be met without incurring substantially higher costs or at any cost at all.

Liquidity risk is the risk that the Bank will be unable to meet its obligations when they fall due in addition to the risks arising from the inability to liquidate some fund on timely basis without incurring losses.

### Management of liquidity risk

The management in addition to its core deposit base, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis and has arranged diversified funding sources.

The Central Bank of Yemen Circular No. 3 of 1997 requires that the liquidity ratio be 25% as a minimum. The liquidity rate as at December 31, 2022 is 190%.

The following table shows the maturity of the Bank's assets and liabilities for the financial period ended on December 31,:

| | 2022 Due within 3 Month YR | Due from 3 to 6 Months YR | Due from 6 Months to One Year YR | Due more than One Year YR | Total YR |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash on hand | 1,084,694,315 | - | - | - | 1,084,694,315 |
| Financing Murabaha contracts transactions | - | 1,612,684 | 16,111,749 | 29,099,360 | 46,823,793 |
| | **1,084,694,315** | **1,613,951** | **16,111,749** | **30,163,876** | **1,131,518,108** |
| **Liabilities** | | | | | |
| Current accounts | 4,754,314,927 | - | - | - | 4,754,314,927 |
| Investments deposits and savings accounts | 11,766,800 | - | 188,000,918 | - | 199,767,718 |
| Accounts payable and other credit balances | 4,081,099 | - | - | - | 4,081,099 |
| | **4,770,162,826** | **-** | **188,000,918** | **-** | **4,958,163,744** |

## 22.3 Operational risk

Operational risk is the risk of direct or indirect loss resulting from certain technological, operational or personnel errors. The Bank minimizes the occurrence of these risks through a framework of policies and procedures for assessing, controlling and management of these risks by working on affective separation of duties, access authorization and reconciliation procedures, in addition to increasing employees' awareness of these risks and methods of evaluation.

### 22.4 Market risk

Market risk includes the risk of fluctuations in foreign currencies transactions and the risk of fluctuations in return.

- **The risk of fluctuations in foreign currencies transactions**

The Bank deals in a number of foreign currencies according to the nature of the activity and this may expose it to the risk of fluctuations in foreign exchange rates. In order to reduce this risk to a minimum, the Bank takes into consideration the balance in the foreign currency position according to the circular No. (6) for the year 1998 issued by the Central Bank of Yemen not to keep the status of foreign currency position more than 25% of various currencies, and 15% of the individual currency from share capitals and reserves. In order to comply with the instructions of the Central Bank of Yemen, the Bank periodically monitors the foreign currency position and to act in surplus foreign currencies at the exchange rates prevailing on that date.

The following schedule below reflects the net exposure to foreign exchange risk at the date of financial statements for the period ended on December 31,:

| | 2022 | | | |
|---|---|---|---|---|
| | USD Equivalent to YR | SR Equivalent to YR | AED Equivalent to YR | Total Equivalent to YR |
| Assets | 9,800,800 | 50,993,018 | 10,900,000 | 71,693,818 |
| Liabilities | (9,800,800) | (73,352,617) | (10,900,000) | (94,053,417) |
| **Net of foreign currency centers** | **–** | **(22,359,599)** | **–** | **(22,359,599)** |

- **Sensitivity analysis of foreign currencies**

The exchange rates for the major currencies at the end of the period were as follows:

| | Closing price according to the Prospectus of Central Bank of Yemen | Average Exchange rate According to the Parallel Market Price* |
|---|---|---|
| | 2022 Equivalent to YR | 2022 Equivalent to YR |
| 1 USD | 400 | 1200 |
| 1 SR | 107 | 318 |
| 1 AED | 109 | 328 |

* Based on the latest transactions conducted by the Bank management to determine the average exchange rate in the parallel market.

According to the instructions of the Central Bank of Yemen to the banks and banks operating in the Republic of Yemen that the closing price of the USD on December 31, 2022 is 400 Yemeni Riyals/USD and, therefore, their financial positions are evaluated on December 2022 according to this price, Bank using prices under the monthly closing price index for December 2022 issued on December 31, 2022 by the Central Bank of Yemen to evaluate foreign exchange positions as at December 31, 2022.

The following schedule below reflects the net exposure to foreign exchange risk at the date of financial statements in the case of using the average exchange rate in the parallel market as of December 31, 2022 to evaluate the financial position for the financial period ended on December 31:

| | 2022 | | | |
|---|---|---|---|---|
| | **USD** | **SR** | **AED** | **Total** |
| | **Equivalent to YR according to the average exchange rate in the parallel market** | **Equivalent to YR according to the average exchange rate in the parallel market** | **Equivalent to YR according to the average exchange rate in the parallel market** | **Equivalent to YR according to the average exchange rate in the parallel market** |
| Assets | 29,402,400 | 151,549,343 | 32,800,000 | 213,751,743 |
| Liabilities | (29,402,400) | (218,001,235) | (32,800,000) | (280,203,635) |
| **Net of foreign currency centers** | **–** | **(66,451,892)** | **–** | **(66,451,892)** |

Taking into consideration the average exchange rates in the parallel market and the conditions prevailing in the country during the current period, the following schedule details the sensitivity to the impairment of the Yemeni riyal against the relevant foreign currencies and the expected impact on the statement of income and equity, with all other factors remaining constant:

| | **Effect on Statement of Income and Equity** |
|---|---|
| | **2022** |
| | **YR** |
| **Currency** | |
| USD | (44,092,293) |
| SR | – |
| AED | – |
| **Total** | **(44,092,293)** |

- **Return rate risk**

Return due on unrestricted investments and saving accounts is determined on the basis of Mudaraba contract, which determines profit (loss) on a sharing basis during the period. Accordingly, any change in the profitability level will determine the return ratio that the Bank could pay to unrestricted investments and saving accounts holders. Therefore, the Bank is not exposed directly to the risk of change in return rate.

### 22.5 Other risks

Other risks include the risk of non-compliance with regulatory requirements, legal risks and reputational risk. Regulatory requirements risk is controlled through a framework of compliance policies and procedures. Legal risk is managed through the effective use of the recommendations of internal and external legal advisors. Reputation risk is controlled through the regular examination of issues that are considered to have reputation repercussions for the bank with guide lines and policies being issued as appropriate, as well as issuing special instructions and policies where appropriate.

## 23. Significant foreign currency positions

In order to comply with CBY Circular No. (6) of 1998, the Bank establishes limits for each positions in individual foreign currencies, as well as an aggregate limitation for all currencies. Accordingly, the surplus in the aggregate currency position should not exceed 25% of the share capital and reserves, while the surplus in each individual currency position should not exceed 15% of the share capital and reserves. The following schedule reflects the Bank's significant foreign currencies positions at the statement of financial statements date:

| | **2022** |
|---|---|

| | Surplus (deficit) YR | Percentage to Capital and Reserves % |
|---|---|---|
| USD | – | – |
| SR | (22,359,599) | 0.44% |
| AED | – | – |
| **Total** | **(22,359,599)** | **0.44%** |

## 24. Capital management

The Bank maintains a capital base that is effectively managed to meet the inherent risks of its business. Capital adequacy is monitored using the rules and ratios approved by the Central Bank of Yemen.

The main objective of the capital base management is to ensure that the required capital requirements are met and to maintain a distinct credit rating to support the business sector. The CBY requests banks and banks operating in Yemen to maintain the ratio of total capital to risk weighted assets at an internationally recognized rate minimum 12%.

The capital adequacy ratio is calculated by comparing the core and supplementary capital components with the total assets and liabilities described in the financial statements after weighting the risk weights for the period ended on December 31 as follows:

| | 2022 YR |
|---|---|
| Core capital | 4,907,351,670 |
| Supplementary capital | 3,196,225 |
| **Total capital** | **4,910,547,895** |
| Total assets weighted with risk ratios | 443,406,747 |
| **Capital adequacy ratio** | **11,07.5%** |

The core capital consists of paid-up capital, statutory and general reserves, as well as retained earnings after excluding contributions to the capital of any local bank or financial company. The supplementary capital consists of general provisions on performing debts and watch list debts not more than 2% of assets weighted by risk weights.

## 25. Current events in Republic of Yemen

Due to the current political crisis, economic situation and security events in the Republic of Yemen, it is difficult for management to predict the effects of these events to the Bank activities and its financial position for the coming period. The management is studying the effects of this crisis in the short term on the Bank and making the necessary precautions to ensure continuity.

## 26. Approval of financial statements

The financial statement for the period ended on December 31, 2022 were approved by bank's Board of Directors on May 3, 2023.