

Financial Statements and Independent Auditor's Report

Shamil Bank of Yemen and Bahrain
(Yemeni Closed Joint Stock Company)

December 31, 2023

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Independent Auditor's Report

To The Shareholders of
Shamil Bank of Yemen and Bahrain
(Yemeni Closed Joint Stock Company)
Sana'a - Republic of Yemen

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of Shamil Bank of Yemen and Bahrain (Yemeni closed Joint Stock Company) (the Bank), which comprise the statement of financial position as at December 31, 2023 the statement of income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion,, except for the possible effects of the matters discussed in the Basis for Qualified Opinion paragraph of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Shamel Bank of Yemen and Bahrain as at 31 December 2023, and results of its operations, changes in owners' equity and its cash flows for the year then ended in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organization for Islamic Financial Institutions“ AAOIFI”, Shari'a rules and principles as determined by the Shari'a Supervisory Board, instructions issued by the Central Bank of Yemen and relevant local laws and instructions.

Basis for Qualified Opinion

As explained in Note (13.1) to the financial statements, the Bank's Management has neither determined nor recognized impairment losses for investment securities to YER 551,449,000 in accordance with the instructions of the Central Bank of Yemen. Hence, net profit for the year is overstated by YER 551,449,000 and equity as at December 31, 2023 is also overstated by the same amount.

We conducted the audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by “AAOIFI”. Our responsibilities under these 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.

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 following:

1. Note (44) to the financial statements related to the political crisis, economic situation and current security events in the Republic of Yemen, which indicate to the existence of an uncertainty about the improvement of the political situation that may affect the Bank's operations and its financial position in case of the continuation of these circumstances. Our opinion is not modified in respect of this matter.

2. Note (7.2) of paragraph (c) of the notes to the financial statements related to the Bank's exposure to foreign exchange risk and its impact on significant foreign exchange positions. The bank has complied with the instructions issued by the Central Bank of Yemen to record the transactions in foreign currencies during the year, as well as, the valuation of the monetary assets and liabilities in foreign currencies as December 31, 2023 using the official exchange rates. Our opinion is not modified in respect of this matter.
3. As described in Note (3) to the financial statements, the Bank's management has not applied the Financial Accounting Standard No. 30 "Impairment, Credit Losses and Onerous Commitments", as well as the presentation of the right-of-use asset and net lease liability in accordance with the requirements of Accounting Standard No.32 "Ijarah" issued by the Accounting and Auditing Organization for Islamic Financial Institutions" AAOIFI", and effective before 1 January 2023. The effects on the financial statements from the departure of FAS 30 and FAS 32 have not been determined. As a result, we were unable to determine the impact of applying these standards on the Bank's financial statements. Our opinion is not modified in respect of this matter.

Management's responsibility for the Financial Statements

The Bank's management is responsible for the preparation and fair presentation of the financial statements in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organization for Islamic Financial Institutions" AAOIFI", Shari'a rules and principles as determined by the Shari'a Supervisory Board, instructions issued by the Central Bank of Yemen and relevant local laws and instructions. The management's responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from any material misstatements, whether due to fraud or error, this responsibility also includes selecting and applying appropriate accounting policies and providing reasonable accounting estimates that are suitable for the circumstances.

In preparing the financial statements, the management 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 management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility 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 include our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Auditing Standards for Islamic Financial Institutions issued by "AAOIFI" will always detect a material misstatement when it exists. Misstatement 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 Auditing Standards for Islamic Financial Institutions issued by "AAOIFI" 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 risks 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 management.

- Conclude on the appropriateness of the managements' 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 auditor's report to the related disclosure 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 disclosure, 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 the 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 be 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

We have obtained all the information and clarifications, which we considered necessary for the purpose of our audit. The Bank keeps proper books of account, and the accompanying financial statements are in agreement with these books. Furthermore. Nothing has come to our attention, which causes us to believe that the bank has breached any of the provisions of Yemeni commercial Companies Law No. (22) of 1997 and its amendments, or the Bank's Articles of Association, Islamic Banking Law No. (21) of 1997 amended by law no (16) of 2009 or Banking law No. (38) of 1998, or instructions issued by Central Bank of Yemen, which would materially affect the reported results of the Bank's operations or its financial position. Except for the bank's violation of the Banking Law No. (38) of 1998, Article No. (22) related to the permitted period with a maximum of five years from the acquisition of assets which titles have been transferred to bank's ownership, in which there are buildings and lands owned by the bank (assets which titles have been transferred to the bank's ownership), but they have not used for the purposes of the current operation or in carrying out the bank's investment activities.

Sana'a – Republic of Yemen

April 23, 2024



Shamil Bank of Yemen and Bahrain (Yemeni Closed Joint Stock Company)
Statement of Financial Position as at December 31, 2023

	<u>Notes</u>	2023 YER 000s	2022 YER 000s
Assets			
Cash and reserve balances with Central Bank of Yemen	9	33,274,557	28,995,138
Due from banks and financial institutions	10	36,502,310	30,082,084
Financing assets	11	2,806,191	2,716,692
Investments in Islamic sukuk	12	-	-
Investments securities	13	742,366	742,366
Investments in subsidiaries and associates	14	5,968,179	5,937,127
Investments in real estate	15	975,975	975,975
Debit balances and other assets	16	4,470,365	3,963,404
Property and equipment	17	5,037,340	4,530,787
Total assets		89,777,283	77,943,573
Liabilities, equity of investments account holders and equity			
Liabilities			
Due to banks and financial institutions	18	7,187,537	4,150,267
Current accounts and other deposits	19	47,651,475	42,379,290
Credit balances and other liabilities	20	1,597,230	2,062,838
Other provisions	21	35,048	34,044
Total liabilities		56,471,290	48,626,439
Equity of Unrestricted investment and saving accounts' holders	22	15,164,533	14,328,187
Equity			
Share Capital	23	12,700,000	8,800,000
Statutory reserve	24	2,150,036	1,677,159
General reserve	25	157,626	248,744
Retained earnings		3,133,798	4,263,044
Total equity		18,141,460	14,988,947
Total liabilities, equity of investment accounts holders and equity		89,777,283	77,943,573
Total contingent liabilities and commitments	26	3,504,766	3,404,442

The attached notes (1-46) form an integral part of these financial statements.

+ Finance Manager

Khalid A. Al-Ward

General Manager

Saeed Mohammed Bazara

Chairman

Ahmed Abubakr Bazara



	<u>Notes</u>	2023 <u>YER 000s</u>	2022 <u>YER 000s</u>
Income from financing activities	27	444,233	257,815
Income from other Joint Investments	28	1,575,643	1,690,123
Total income from jointly financed assets		2,019,876	1,947,938
Less:			
Return on unrestricted investments and saving accounts h.c.	29	(587,784)	(466,051)
Bank's share of income from jointly financed assets		1,432,092	1,481,887
Fee and commission income	30	976,164	916,985
Less: Fee and commission expenses		(504,627)	(330,337)
Net fee and commission income		471,537	586,648
Gains on foreign currencies transactions, net	31	5,587,511	4,936,610
Other operating income	32	431,216	2,251,082
Total operating income		7,922,356	9,256,227
Less:			
Provisions	33	(44,850)	(41,130)
Staff costs	34	(2,547,614)	(1,953,650)
Depreciation of property and equipment	17	(153,455)	(129,101)
Other expenses	35	(1,756,667)	(1,660,919)
Net profit for the year before tax		3,419,770	5,471,427
Less:			
Income tax for the year	20.1.1	(267,257)	(496,549)
Net profit for the year		3,152,513	4,974,878
Earnings per share	36	525.42	829.15

The attached notes (1-46) form an integral part of these financial statements.

+ Finance Manager

Khalid A. Al-Ward

General Manager

Saeed Mohammed Bazara

Chairman

Ahmed Abubakr Bazara



Shamil Bank of Yemen and Bahrain (Yemeni Closed Joint Stock Company)
 Statement of Changes in Equity for the year ended December 31, 2023

	Share Capital	Statutory Reserve	General Reserve	Retained Earnings	Total
	YER 000s		2023		
Balance at January 1	8,800,000	1,677,159	248,744	4,263,044	14,988,947
Net profit for the year	-	-	-	3,152,513	3,152,513
Transferred to reserves	-	472,877	157,626	(630,503)	-
Transferred to capital increase	3,900,000	-	(248,744)	(3,651,256)	-
Cash dividends paid to shareholders	-	-	-	-	-
Balance at December 31	12,700,000	2,150,036	157,626	3,133,798	18,141,460
	YER 000s		2022		
Balance at January 1	6,000,000	930,927	-	4,283,142	11,214,069
Net profit for the year	-	-	-	4,974,878	4,974,878
Transferred to reserves	-	746,232	248,744	(994,976)	-
Transferred to capital increase	2,800,000	-	-	(2,800,000)	-
Cash dividends paid to shareholders	-	-	-	(1,200,000)	(1,200,000)
Balance at December 31	8,800,000	1,677,159	248,744	4,263,044	14,988,947

The attached notes (1-46) form an integral part of these financial statements.

+ Finance Manager
 Khalid A. Al-Ward

General Manager
 Saeed Mohammed Bazara

Chairman
 Ahmed Abubakr Bazara



Shamil Bank of Yemen and Bahrain (Yemeni Closed Joint Stock Company)
 Statement of Cash Flows for the year ended December 31, 2023

	<u>Notes</u>	2023 YER 000s	2022 YER 000s
<u>Cash flows from operating activities</u>			
Net profit for the year before tax		3,419,770	5,471,427
<u>Adjustments for:</u>			
Depreciation of property and equipment	17	153,455	129,101
Provisions charged to the income statement	33	44,850	41,130
Provisions used during the year		(1,237)	-
Provisions reversed during the year	32	(34,360)	(2,176,256)
Gain on sale of property and equipment		(7,924)	(12,548)
Gain on sale of asset transferred to Bank's ownership		(298,550)	-
Operating income before changes in operating assets and liabilities		3,276,004	3,452,854
<u>Changes in operating assets and liabilities:</u>			
Reserve balances with CBY		(540,195)	155,539
Financing assets		(114,760)	159,884
Al-Qard Al-Hasan		-	101,852
Debit balances and other assets		(451,982)	1,303,832
Current accounts and other deposits		5,272,185	(1,917,106)
Credit balances and other liabilities		(236,316)	45,786
Cash flows from (used in) operating transactions		3,928,932	(150,213)
Tax paid		(496,549)	(803,589)
Net cash flows from operating activities (1)		6,708,387	2,499,052
<u>Cash flows from investing activites</u>			
Change in investments in subsidiaries		(31,052)	(4,693,427)
Change in investment deposits due over 3 months		-	800,000
Purchase of property and equipment	17	(661,241)	(536,396)
Proceeds from sale of asset transferred to Bank's ownership		471,739	-
Proceeds from sale of property and equipment		9,157	17,081
Change on asset transferred to Bank's ownership		(206,666)	3,294,180
Net cash flows used in investing activities (2)		(418,063)	(1,118,562)

The attached notes (1-46) form an integral part of these financial statements.

+ Finance Manager

Khalid A. Al-Ward

General Manager

Saeed Mohammed Bazara

Chairman

Ahmed Abubakr Bazara



Shamil Bank of Yemen and Bahrain (Yemeni Closed Joint Stock Company)
 Statement of Cash Flows for the year ended December 31, 2023

	<u>Notes</u>	2023 YER 000s	2022 YER 000s
<u>Cash flows from financing activities</u>			
Change in equity of unrestricted investments and saving accounts' holders		836,346	302,532
Change in due to banks and financial institutions		3,037,270	(1,773,080)
Cash dividends paid to shareholders		-	(1,200,000)
Net cash flows from (used in) financing activities (3)		3,873,616	(2,670,548)
Net change in cash and cash equivalents (1+2+3)		10,163,940	(1,290,058)
Cash and cash equivalents at the beginning of the year		54,433,003	55,723,061
Cash and cash equivalents at the end of the year		64,596,943	54,433,003
<u>Cash and cash equivalents at the end of the year consist of:</u>			
Cash and reserve balances with Central Bank of Yemen	9	33,274,557	28,995,138
Due from banks and financial institutions	10	36,536,494	30,111,778
		69,811,051	59,106,916
Less:			
Reserve balances with CBY	9	(5,214,108)	(4,673,913)
		64,596,943	54,433,003

The attached notes (1-46) form an integral part of these financial statements.

+ Finance Manager

Khalid A. Al-Ward

General Manager

Saeed Mohammed Bazara

Chairman

Ahmed Abubakr Bazara



1. Legal Status and Principal Activities

Shamil Bank of Yemen and Bahrain (Closed Joint Stock Company) was established on February 17, 2002. The Bank exercises its banking activities in the Republic of Yemen through its Head Office located in Sana'a city El.siteen St, and its branches located in Sana'a, (Sho'oup, Taiz St. and Haddah) Aden, Sheikh Othman, Mukalla, Hodeidah, ,Taiz, Sayun, Ma'rib and Al-Shihr.. The bank performs its services in conformity with Islamic Sharia.

The Bank is involved in the following business activities:

- Opening current accounts;
- Accepting unrestricted investment accounts, and commingling the same with those of the bank and investing them in accordance with Islamic Shari'a;
- Managing the investment of other parties' funds as an agent for a fixed fee or as a Mudarib and any other banking activities not contravening with the provisions of the Islamic Shari'a;
- Industrial, commercial and agricultural business activities, etc. either directly or through companies the Bank may establish, or in which the Bank may acquire part of its shares;
- Leasing and acquiring lands, constructing buildings and renting out thereof;
- Foreign currencies exchange deals.

2. Basis of preparation

2.1. 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 Supervisory Board of the Bank and instructions issued by the Central Bank of Yemen (CBY) and related Yemeni law and regulation.

The unconsolidated financial statements for the year ended December 31, 2023 were approved by the board of directors on April 23, 2024 and are subject to approval by the general assembly and the Central Bank of Yemen (note no. 45).

2.2. Basis of measurement

The financial statements have been prepared under the historical cost basis, except for certain financial instruments that are measured at fair value.

2.3. Functional and presentation currency

The financial statements are presented in Yemeni Rials ("YER") (the Bank's functional currency), which is the currency in which the majority of transactions are denominated. Except as otherwise indicated, financial information presented in YER has been rounded off to the nearest thousands.

2.4. Significant accounting judgments and estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The 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. The most significant use of judgments and estimates are as follows:

2.4.1. Going concern principle

The management has made an assessment of the bank's ability to continue as a going concern and is satisfied that the bank has the resources to continue in business for the foreseeable future. Furthermore, the management confirms it is taking appropriate measures to support the sustainability of the bank's business. Therefore, the financial statements are prepared on the going concern principle.

2.4.2. Classification of investments

In the process of applying the Bank's accounting policies, management decides on acquisition of an investment whether it should be classified as debt type instruments carried at fair value through equity or amortized cost, or equity-type instruments carried at fair value through income statement. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

2.4.3. Provision for impairment of assets

The Bank exercises its judgment in the estimation of provision for impairment of financial assets. The methodology for the estimation of the provision is provided in the impairment of financial assets and non-financial assets, which is shown in the significant accounting policies below.

2.4.4. Impairment of financial investments

Investments in equity instruments

The Bank determines that equity investments carried at fair value through equity are impaired when there is a significant or prolonged (judgmental) decline in the fair value of the investment below its cost, or where other objective evidence of impairment exists. In addition, the Bank evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the present value calculation factors for unquoted equities.

Investments in monetary and non-monetary debt instruments

The investments which were held for trading are recorded at cost on acquisition date. On financial statements date, they are evaluated at fair value and the differences are charged on the income statement in accordance with the business model and cash flow characteristics and in line with Islamic financing contracts.

2.4.5. Valuation of unquoted private equity and real estate investments

Valuation of above investments is normally based on one of the following methods:

- Valuation by independent external valuers;
- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- present value of expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- Other valuation models.

The Bank determines valuation techniques on a periodic basis and examines their validity either using current observable market transaction prices for the same instrument or other observable market data.

2.4.6. Useful lives of property and equipment

The Bank's management determines the estimated useful life of property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset, physical wear and tear, technical or commercial obsolescence.

3. Significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied by the Bank and are consistent with those used in the previous year.

3.1. New standards, amendments, and interpretations

3.1.1. New standards, amendments and interpretations effective from January 1, 2023

During the period, the bank applied the following standards and amendments to standards in preparation of these financial statements. The adoption of the below standards and amendments to standards did not result in changes to previously reported net profit or equity of the bank.

▪ **Financial accounting standard No. (39) Financial Reporting for Zakat**

AAOIFI has issued FAS 39 “Financial Reporting for Zakat” in 2021. 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”.

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

Adoption of this standard has no material impact on the financial statements of the Bank.

▪ **Financial accounting standard No. (41) Interim Financial Reporting**

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

This standard shall apply to institutions having adopted FAS issued by AAOIFI, which are required to prepare and publish interim financial reports according to the applicable law, directions of the respective regulators and/or, where relevant, the stock exchanges.

This standard also applies to the institutions voluntarily electing to prepare and publish interim financial reports.

This standard shall be effective for the financial periods beginning on or after January 1, 2023 with early adoption permitted.

The adoption of this standard did not have any significant impact on the Bank’s interim financial information.

▪ **Financial accounting standard No. (44) Determining Control of Assets and Business**

The objective of this standard is to establish the principles of assessing as to whether and when an institution controls an asset or a business, both in case of underlying assets of a participatory structure, as well as, for the purpose of consolidation of financial statements of subsidiaries. This standard is immediately effective; accordingly, the Bank adopted this standard during 2023.

Adoption of this standard has no material impact on the financial statements of the Bank.

3.1.2. New standards, amendments and interpretations issued but not effective from January 1, 2023

▪ **Financial accounting standard (1) General Presentation and Disclosures in the Financial Statements**

AAOIFI has issued revised FAS 1 General Presentation and Disclosures in the Financial Statements in 2021. This standard describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. It is applicable to all the Islamic financial institutions and other institutions following AAOIFI FAS’s. This standard is effective for the financial reporting periods beginning on or after 1 January 2023 with an option to early adopt.

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

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

- a. Revised conceptual framework is now integral part of the AAOIFI FAS’s;
- b. Definition of Quasi equity is introduced;
- c. Definitions have been modified and improved;
- d. Concept of comprehensive income has been introduced;

- e. Institutions other than banking institutions are allowed to classify assets and liabilities as current and non-current;
- f. Disclosure of Zakat and Charity have been relocated to the notes;
- g. True and fair override has been introduced;
- h. Treatment for change in accounting policies, change in estimates and correction of errors has been introduced;
- i. Disclosures of related parties, subsequent events and going concern have been improved;
- j. Improvement in reporting for foreign currency and segment reporting;
- k. Presentation and disclosure requirements have been divided into three parts. First part is applicable to all institutions, second part is applicable to the banks and similar Islamic financial institutions, and third part prescribes the authoritative status, effective date of amendments to other AAOIFI FAS's; and
- l. 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 (40) Financial Reporting for Islamic Finance Windows**
AAOIFI has issued FAS 40 “financial reporting for Islamic finance windows” in 2021. The objective of this revised standard is to establish financial reporting requirements for Islamic finance windows and applicable to all conventional financial institutions providing Islamic financial services through an Islamic finance window. This standard improves upon and supersedes FAS 18 “Islamic financial services that offered by conventional financial institutions”. This standard shall be effective for the financial periods beginning on or after January 1, 2024 with early adoption permitted. Based on the initial review, management believes that there is no significant impact on Bank’s financial statements.
- **Financial accounting standard (43) Accounting for Takaful Recognition and Measurement**
This standard supersedes the following FAS: FAS 13 “Disclosure of basis for determining and allocation surplus or deficit in Islamic insurance companies” and FAS 15 “Provisions and Reserves in Islamic Insurance Companies”. This standard is effective for the financial reporting periods beginning on or after January 1, 2025 with early option permitted.
- **Financial accounting standard (45) Quasi – Equity (Including Investment Accounts)**
AAOIFI has issued FAS 45 “Quasi-Equity (including investment accounts” in 2023. The objective of this standard is to establish the principles of financial reporting related to instruments classified as Quasi-Equity, such as investment accounts and similar instruments invested with Islamic financial institutions. Quasi-Equity is an element of financial statements of an institution in line with the “AAOIFI Conceptual Framework for Financial Reporting”. This standard shall be effective for the financial periods beginning on or after January 1, 2026 with early adoption permitted.
- **Financial accounting standard (46) Off – Balance-Assets under Management**
AAOIFI has issued FAS 46 “Off-Balance-Sheet Assets under Management” in 2023. The objective of this standard is to establish the principles of financial reporting related to off-balance-sheet assets under management in line with the “AAOIFI Conceptual Framework for Financial Reporting”. This standard applies to Islamic financial institutions preparing financial statements in line with the requirements of AAOIFI Financial Accounting Standards with regard to the assets managed in a fiduciary capacity without establishing control except for the participants ‘Takaful fund/ participants’ investment fund of Takaful institution; and an investment fund managed by an institution, being a separate legal entity. This standard shall be effective for the financial periods beginning on or after January 1, 2026 with early adoption permitted.

▪ **Financial accounting standard (47) Transfer of Assets between Investment Pools**

AAOIFI has issued FAS 47 “Transfer of Assets between Investment Pools” in 2023. The objective of this standard is to establish the principles of financial reporting that apply in respect of transfer of assets between various investment pools of an Islamic financial institution. This standard applies to all transfers of assets between investment pools related to (and where material, between significant categories of) owners’ equity, quasi equity and off-balance-sheet assets under management of all institutions, irrespective of their type or business model. The assets transferred include both monetary and non-monetary assets. This standard shall be effective for the financial periods beginning on or after January 1, 2026 with early adoption permitted.

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

▪ **Financial accounting standard (30) Impairment, credit losses and onerous commitments**

AAOIFI has 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 outflows associated with such assets and transactions. FAS 30 replaces 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 approach “NRV” and (3) Impairment approach.

On July 12, 2023, the Central Bank of Yemen issued Circular No. (26) regarding FAS No.(30) which states to postpone the application of FAS No.(30) until further notice, with completing the procedures according to the instructions issued on June 29, 2022 regarding the Business Steering Committee to apply the standard.

▪ **Financial accounting standard (32) Ijarah**

AAOIFI has issued FAS 32 “Ijarah” in 2022. This standard is effective for the financial periods beginning on or after January 1, 2021. The standard supersedes the existing FAS 8 “Ijarah and Ijarah Muntahia Bittamleek”.

FAS 30 sets out principles for the classification, recognition, measurement, presentation and disclosure of Ijarah (Ijarah asset, including different forms of Ijarah Muntahia Biittamleek) transactions entered into by the Islamic financial institutions as a lessor and lessee. The bank has not applied FAS 32 “Ijarah and Ijarah Muntahia Bittamleek”.

3.2. Investments in subsidiaries and associates

3.2.1. Subsidiaries

Are the companies over which the bank owns directly or indirectly the power to control and govern financial and operating policies. Generally, the Bank has a shareholding of more than a half of the voting rights.

Investments in subsidiaries are presented in the attached unconsolidated financial statements on a cost basis, representing the Bank’s direct share in owner’s equity and not based on business results and net assets of subsidiaries.

3.2.2. Associates

Are the companies over which the Bank has direct or indirect significant influence but do not reach the extent of control. Generally, the bank has a shareholding of less than a half of the voting rights.

3.3. Foreign currency transactions

- a. In preparing the financial statements of the Bank, transactions in currencies other than the Bank's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the average official exchange rates issued by the CBY at that date. Translation gain or losses on non-monetary items carried at fair value are included in owner's equity as part of fair value adjustment. Non-monetary items that are measured in terms of historical costs in a foreign currency are not retranslated.
- b. The Bank does not engage in forward contracts to meet its obligations in foreign currencies, nor does it engage in foreign exchange contracts to cover the risk of settlement of future liabilities in foreign currencies, or its customers' need to meet their obligations in foreign currencies resulting from their transactions through the Bank.

3.4. Financial contracts

Financial contracts consist of due from banks and financial institutions, Sukuk, financing assets (net of deferred profit) and Ijarah Muntahia Bittamleek. Balances relating to these contracts are stated net of provisions for impairments.

3.4.1. Placements with and from financial institutions, non-financial institutions and individuals

These comprise of fund deposited from and to the Bank using Shari'a compliant contracts. Placements are usually for short-term and are stated at their amortized cost.

3.4.2. Equity of investments accounts holders

Equity of investments accounts holders are funds held by the bank in unrestricted investments accounts, which it can invest at its own discretion. The investments accounts holder authorizes the bank to invest the account holders' 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. The Bank charges management fees (Mudarib fees) on the unrestricted investments and saving accounts' holders. Of the total income from unrestricted investments and saving accounts, the income attributable to customers is allocated to unrestricted investments and saving accounts after setting aside provisions, reserves (profit equalization reserve and investment risk reserve) and deducting the Bank's share of income as a Mudarib. The allocation of income is determined by the management of the Bank within the allowed profit-sharing limits as per the terms and conditions of the unrestricted investments and saving accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Bank and are not charged to unrestricted investments and saving accounts.

Only profits earned from the group of assets funded by the equity of investments and saving accounts' holders are allocated between the owners' equity and equity of investment accounts' holders.

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

3.4.3. Wakala

An agreement whereby the Bank provides a certain sum of money to finance agent (Wakkil) who invests it in Sharia's compliant transactions according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested).

3.4.4. Sukuk

Sukuk are quoted and unquoted securities which are classified as investment and carried at amortized cost.

3.4.5. Murabaha

Murabaha is a contract whereby one party sells ("Seller") an asset to the other party ("Purchaser") at cost plus profit, on a deferred payment basis, after the Seller have purchased the asset based on the Purchaser 's promise to purchase the same on such Murabaha basis. The sale price comprises the cost of the asset and an agreed profit margin. The sale price (cost plus the profit amount) is paid by the Purchaser to the Seller on installment basis over the agreed finance tenure.

The Bank considers the purchaser's promissory is obliged for the Murabaha transaction in favour of the Seller.

Murabaha receivables are stated at cost, less deferred profits and provision for impairment.

3.4.6. Musawama

Musawama is a sale transaction where the seller does not disclose the acquisition cost or intended profit margin to the buyer. The asset is sold for a negotiated lump sum price agreed upon by both parties, without specifying the underlying cost or profit components.

3.4.7. Istisna'a

Istisna'a is an agreement between the Bank and a customer whereby the Bank sells to the customer a developed asset according to agreed upon specifications, for an agreed price. Istisna'a transactions are stated at cost, net of deferred profits and provision for impairment.

3.4.8. Mudaraba

Mudaraba is a contract between two parties whereby one party is a fund provider (Rab Al Mal) who would provide a certain amount of funds (Mudaraba capital), to the other party (Mudarib). Mudarib would then invest the Mudaraba capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit. The Rab Al Mal is not involved in the management of the Mudaraba activity.

The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise, the loss would be borne by the Rab Al Mal. Under the Mudaraba contract, the Bank may act either as Mudarib or as Rab Al Mal, as the case may be.

Mudaraba financing are recognized at fair value of the Mudaraba assets net of provision for impairment, if any, and Mudaraba capital amount is settled. If the valuation of the Mudaraba assets results in difference between fair value and book value, such difference is recognized as profit or loss to the Bank.

3.4.9. Musharaka

Musharaka is used to provide venture capital or project finance. The Bank and customer contribute towards the capital of the Musharaka. Usually, a special purpose company or a partnership is established as a vehicle to undertake the Musharaka. Profits are shared according to a pre-agreed profit distribution ratio but losses are borne by the partners according to the capital contributions of each partner. Capital contributions may be in cash or in kind, as valued at the time of entering into the Musharaka. Musharaka is stated at cost, less the impairments.

3.4.10. Ijarah Muntahia Bittamleek

Ijarah (Muntahia Bittamleek) is an agreement whereby the Bank (as lessor) leases an asset to the customer (as lessee) after purchasing/acquiring the specified asset, either from a third-party seller or from the customer itself, according to the customer's request and promise to lease against certain rental payments for a specific lease term/periods, payable on fixed or variable rental basis.

The Ijarah agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation, the timing of rental payment and responsibilities of both parties during the lease term. The customer lessee) provides the Bank (lessor) with an undertaking to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Bank (lessor) retains the ownership of the assets throughout the lease term. At the end of the lease term, upon fulfilment of all the obligations by the customer (lessee) under the Ijarah agreement, the Bank (lessor) will sell the leased asset to the customer (lessee) for a nominal value based on sale undertaking given by the Bank (lessor). Leased assets are usually residential properties, commercial real estate or machinery and equipment.

Depreciation is provided on a straight-line basis on all Ijarah Muntahia Bittamleek assets other than land (which is deemed to have an indefinite life), at rates calculated to write off the cost of each asset over the shorter of either the lease term or economic life of the asset.

3.5. Investments securities

Investments securities comprise investments in debt-type and equity-type instruments.

3.5.1. Classification

Under FAS (33) “Investments in Sukuks, shares and similar instruments”, each instrument should be categorized as investments in:

- a) Equity-type instruments.
- b) Debt-type instruments (including monetary and non-monetary)
- c) Other investment instruments.

Unless irrevocable initial recognition choices provided in para (10) of the standard are exercised, an institution shall classify investments as subsequently measured at either of (1) amortized cost, (2) fair value through equity or (3) fair value through income statement, on the basis of both:

- a) The Bank’s business model for managing the investments; and
- b) The expected cash flow characteristics of the investment in line with the nature of the underlying Islamic finance contracts.

▪ Amortized cost

An investment shall be measured at amortized cost if both of the following conditions are met:

- a) The investment is held a business model whose objective is to hold such investment in order to collect expected cash flows till maturity of the instrument; and
- b) The investment represents either a debt-type instrument or other investment instrument having reasonable determinable effective yield.

▪ Fair value through equity

An investment shall be measured at fair value through equity if both of the following conditions are met:

- 1) The investment is held within a business model whose objective is achieved by both collecting expected cash flows and selling the investment; and
- 2) The investment represents either a debt-type instrument or other investment instruments having reasonable determinable effective yield.

▪ Fair value through income statement

An investment shall be measured at fair value through income statement unless it is measured at amortized cost or at fair value through equity or if irrevocable classification at initial recognition is applied.

▪ **Irrevocable classification at initial recognition**

The Bank may make an irrevocable election to designate a particular investment, at initial recognition, being:

- a) An equity-type instrument that would otherwise be measured at fair value through income statement to present subsequent changes in fair value through equity; and
- b) A non- monetary debt-type instrument or other investment instrument, as measured at fair value through income statement if doing so eliminates or significantly reduces a mismeasurement or recognition inconsistency that would otherwise arise from measuring assets or correlated liabilities or recognizing the gains and losses on them on different basis.

3.5.2. Recognition and de-recognition

Investment securities are recognized at the trade date i.e. the date that the Bank contracts to purchase or sell the asset, or at the date that the Bank becomes a party to the contractual provisions of the instrument.

Investment securities are derecognized when the rights to receive cash flows from the financial assets have expired or when the Bank transfers substantially all risk and rewards of ownership.

3.5.3. Measurement

▪ **Initial recognition**

Investment securities are initially recognized at fair value plus transaction costs, except for transaction costs incurred to acquire investments at fair value through income statement which are charged to income statement.

▪ **Subsequent measurement**

Investment at fair value through income statement

Investments at fair value through income statement are re-measured at fair value at the end of each reporting period and the resultant measurement gains and losses is recognized in the income statement in the period in which they arise. Subsequent to initial recognition, investments classified at amortized cost are measured at amortized cost using the effective profit method less any impairment provision. All gains or losses arising from the amortization process and those arising on de-recognition or impairment of the investments, are recognized in the income statement.

Investment at fair value through equity

Investments at fair value through equity are re-measured at their fair values at the end of each reporting period and the resultant gains or losses, arising from a change in the fair value of investments are recognized in the statement of changes in equity and presented in a separate fair value reserve within equity.

The bank may elect to present in statement of changes in equity changes in the fair value of certain investments in equity-type instruments that are held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity-type instrument are never subsequently reclassified to statement of income. However, cumulative gains and losses recognized in fair value reserve are transferred to retained earnings on disposal of an investment. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in statement of income, unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in statement of changes in equity. Whereas for debt-type investments classified as fair value through equity, the cumulative gains or losses previously recognized in the statement of changes in equity is transferred to the statement on income.

3.5.4. Measurement principles

- **Amortized cost measurement**

The amortized 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 amortization using the actual profit rate of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. The calculation of the actual profit rate includes all fees paid or received that are an integral part of the actual profit rate.

- **Fair value measurement**

Fair value is the amount for which an asset could be exchanged or an obligation settled between well informed and welling parties (seller and buyer) in an arm's length transaction. The Bank measures the fair value of quoted investments using the market bid price for that instrument at the close of business on the statement of financial position date. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Bank by discounting future cash at current profit rates for contracts with similar term and risk characteristics.

3.6. Impairment of financial assets

An assessment is made at each reporting date to determine whether there is an evidence that a specific financial asset may be impaired. Objective evidence that financial assets (including investments in securities) are impaired can include default or delinquency by a borrower, restructuring of financing facility or amount paid in advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers. If such evidence exists, any impairment loss is recognized in the income statement. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value.
- For assets carried at amortized cost, impairment is based on estimated cash flows based on the original actual profit rate.
- For assets carried at cost, impairment is based on present value of anticipated cash flows based on the current market rate of return for similar financial asset.

3.6.1. Valuation of Murabaha and Istisna'a financing transactions

- a. Debts related to Murabaha and Istisna'a financing transactions, whether short or long term, are recorded at cost plus agreed-upon profits in Murabaha or Istisna'a contracts. In order to comply with the requirements of the Central Bank of Yemen, provision is provided for specific debts of Murabaha, Istisna'a and contingent liabilities, in addition to a percentage for general risk calculated on the total of other Murabaha, Istisna'a and contingent liabilities after deducting balances secured by deposits and banks' guarantees issued by foreign worthy banks. Provision is determined based on periodical comprehensive reviews of the Murabaha, Istisna'a and contingent liabilities and made in accordance with the following minimum rates:

Performing debts including watch list (due within 90 days)	2%
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Non-performing debts

Substandard debts (due from 90 days and less than 180 days)	15%
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Doubtful debts (due from 180 days and less than 360 days)	45%
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Bad debts (due for more than 360 days)	100%
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- b. Debts relating to financing Murabaha and Istisna'a transactions are written off if procedures taken toward their collection prove useless, or if directed by CBY examiners upon review of the portfolio. Proceeds from debts previously written off in prior years are credited to the provision.

c. Debts relating to financing Murabaha and Istisna'a transactions whether short or long term, are presented on the statement of financial position net of their related provisions, (non-performing provision and general risk provision for performing debts) and deferred and suspense revenues at the financial statements date.

3.6.2. Valuation of investments in Mudaraba and Musharaka contracts

a. Investments in Mudaraba and Musharaka contracts are recorded on the basis of the amount paid to the capital of Mudaraba or Muasharaka. In-kind investments in Mudaraba and Musharaka contracts are recorded based on the agreed-upon value between the Bank and the customer or partner. Accordingly, any differences between this value and the book value are recorded as profits or losses in the income statement.

In order to comply with the requirements of CBY, a provision is made for specific Mudaraba and Musharaka contracts which realized losses, in addition to a percentage for general risk calculated on the total investments of Mudaraba and Musharaka contracts after deducting balances secured by deposits and Banks' guarantees issued by worthy Banks.

Provision is determined based on periodical reviews of the portfolio and is made in accordance with the following minimum rates:

Performing debts including watch list (due within 90 days)	2%
Non-performing debts	
Substandard debts (due from 90 days and less than 180 days)	15%
Doubtful debts (due from 180 days and less than 360 days)	45%
Bad debts (due for more than 360 days)	100%

b. At the end of each year, the Mudaraba and Musharaka capitals are reduced by losses incurred which are charged to the income statement.

c. Investments in Mudaraba and Musharaka contracts are presented on the statement of financial position at carrying value which represents cost less realized losses and related provisions (provision for non-performing debts and general risk provision on performing debts).

3.6.3. Ijarah Muntahia Bittamleek

a. Assets acquired for Ijarah and Ijarah Muntahia Bittamleek are recorded at historical cost less accumulated depreciation and impairment losses. They are depreciated, except for land, over the term of the Ijarah's contract.

b. At the end of the Ijarah term, title of leased assets passes to the lessee, provided that all Ijarah instalments are settled by the lessee.

3.6.4. Valuation of assets whose titles have been transferred to the Bank ownership as a repayment of debts

According to CBY instructions, assets whose titles have been transferred to the Bank are presented in the statement of financial position under debit balances and other assets at the acquired values, less any impairment in their values, if any, at the financial statements date. Impairment losses are charged to the income statement. In case the assets value are increased, the difference is recognized in the income statement to the extent of impairment previously recognized.

3.7. Revenue recognition

3.7.1. Financing Murabaha and Istisna'a transactions

- Profits on Murabaha and Istisna'a contracts are recorded on the accrual basis as all profits at the completion of Murabaha contracts are recorded as deferred revenues, and taken into the income statement on the basis of the finance percentage, using the straight-line method over the term of the contract in accordance with Fatwa of Sharia'a Supervisory Board.
- In order to comply with the requirements of CBY, the Bank does not accrue the profits relating to non-performing Murabaha contracts in the income statement.

3.7.2. Investments in Mudaraba and Musharaka contracts

- Profit on Mudaraba and Musharaka contracts, which are initiated and terminated during the financial year, are recorded in the income statement at the disposing date of Mudaraba and Musharaka contracts. Profit on Mudaraba and Musharaka contracts, which last for more than one financial year are recognized based on the cash dividends received on these transactions during the year.

3.7.3. Divided income

Revenues of investments in associates are recognized when its related dividends are distributed.

3.7.4. Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek is proportionately allocated to the financial periods over the lease term.

3.7.5. Fees and commission income

Fees and commission income are integral to the actual profit rate of financial instruments carried at amortized cost and are included to the measurement of the actual profit rate of the financial assets. Fees and commission income are recognized when the related services are performed.

3.7.6. Wakala income

Estimated income from Wakala is recognized on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

3.7.7. Income from sukuk and deposits

Income from sukuk and income/expenses on deposits are recognized at their actual profit rate over the term of the instrument.

3.7.8. Reversed provisions

In accordance with CBY instructions, the reversed provisions (no longer required provisions) are recorded in the income statement under "other operating income".

3.8. Investments in real estate

Investments in real estate are properties held for rental or for capital appreciation (including property under construction for such purposes) or for both. In accordance with FAS 26, the investment in real estate is initially recognized at cost and subsequently measured based on intention whether the investment in real estate is held for-use or held for sale. The Bank has adopted the fair value model for its investments in real estate.

Under the fair value model, any unrealized gains are recognized directly in owners' equity. Any unrealized losses are adjusted in equity to the extent of the available credit balance. Where unrealized losses exceed the available balance in owners' equity, these are recognized in the income statement.

In case there are unrealized losses relating to investment in real estate that have been recognized in the income statement in a previous financial period, the unrealized gains relating to the current financial period are recognized to the extent of crediting balance of such previous losses in the income statement.

3.9. Property, equipment and their depreciation

3.9.1. Recognition and measurement

Property and equipment are measured at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment are capitalized as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items, (major components) of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and is recognized net within "other income/expenses" in the income statement.

3.9.2. Subsequent costs

The cost of replacing a component of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Bank, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in income statement as incurred.

3.9.3. Depreciation

Depreciation is based on the cost of an asset less its residual value, if any. Significant components of individual assets are assessed and if a component has useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation for property and equipment, except land, is charged to the income statement on a straight-line basis over the estimated useful lives of each component of an item of property and equipment.

The estimated useful lives are as follows:

Estimated Useful Lives	
Buildings	40 years
Leasehold improvements on buildings	10 years or the term whichever is lesser
Machinery and equipment	5-10 years
Motor and vehicles	5 years
Furniture and fixtures	7 years
Computer equipment	5 years

The depreciation method, useful lives and residual values are reviewed by the management at each reporting date and adjusted if any.

3.10. Impairment of non-financial assets

The carrying amounts are reviewed at each reporting date for indication of impairment. If such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the present value in use and its fair value less costs to sell, whichever is greater. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks related to the asset. An impairment loss is recognized in the income statement to the extent that carrying values do not exceed the recoverable amounts.

3.11. Contingent liabilities and commitments

Contingent liabilities and commitments, in which the Bank is a party, are presented off the statement of financial position, net of their related margins, under "contingent liabilities and commitments" as they do not represent actual assets or liabilities at the financial statements date.

3.12. Cash and cash equivalents

For the purpose of preparing the statement of cash flows, cash and cash equivalents consist of cash on hand, due from banks and financial institutions, other than reserve balances with CBY which are due within three months.

3.13. Other provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows, at a pre-tax rate, that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.14. End of service benefits

All the employees of the Bank are contributing to the social security scheme in accordance with the Republic of Yemen's Social Insurance Law No. (26) of 1991. Payments are made to the Social Security General Corporation before the 10th day of next month. The Bank's contribution is charged to the income statement.

The provisions of social security law in Republic of Yemen are applicable to all employees of the Bank concerning the end of service benefits.

3.15. Offsetting

Financial assets and financial liabilities can only be offset with the net amount being reported in the statement of financial position when there is a religious or legally enforceable right to set off the recognized amounts and the Bank intends to either settle on a net basis, or intends to realize the asset and settle the liability simultaneously.

3.16. Lease contracts

Leases are classified as finance leases whereby the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under these leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

3.17. Earnings per share

The basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the share number or the weighted average number of ordinary shares outstanding during the year.

3.18. Dividends

Dividends are recognized in equity in the period in which they are approved by the shareholders of the Bank.

3.19. Taxes

Income tax expense represents the tax currently payable as per the prevailing Yemeni Tax Law No. (17) for 2010 and the provision for tax liabilities is made after conducting the necessary studies and in consideration of tax assessments.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that are enacted at the statement of financial position date.

3.20. Revenue prohibited by Shari'a rules and principles

The Bank records revenues in violation of Shari'a rules and principles, under "credit balances and other liabilities". Such revenues are disbursed in aspects and activities approved by the Fatwa and Shari'a Supervisory Board of the Bank.

3.21. Customers' current accounts

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

3.22. Equity of investments accounts holders

Equity of investments account holders are funds held by the Bank in unrestricted investment accounts, which it can invest at its own discretion. The investments account holder authorizes the Bank to invest the account holders' 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 investments and saving accounts is determined on the basis of Mudaraba contract, which determines profit (loss) on a sharing basis during the period.

4. Supervision of Central Bank of Yemen

The Bank's activities are subject to the supervision of the Central Bank of Yemen, according to the guidelines and the laws governing the operations of banks and Islamic Banks in Yemen.

5. Fatwa and Shari'a Supervisory Board

The Bank is subject to the supervision of a Shari'a supervisory board 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 provisions of Islamic Shari'a.

6. Zakat

Zakat is computed in accordance with to Law No. (2) for 1999. A provision is provided for Zakat payable and the Bank pays Zakat to the relevant government authority.

Payment of Zakat on the unrestricted investments and other accounts is the responsibility of the investments accounts holders.

7. Financial instruments and related risk management

7.1. Financial instruments

a. The Bank's financial instruments are represented in financial assets and liabilities. The financial assets include cash balances, due from banks, financing assets, investment in securities, and other assets. The financial liabilities include due to Banks and financial institutions, customers' current accounts and other deposits, equity of unrestricted investments and saving account holders and other financial liabilities. Also, financial instruments include rights and obligations stated in contingent liabilities and commitments. Note (3) to the financial statements includes significant accounting policies applied for recording and measuring significant financial instruments and their related revenues and expenses.

b. Fair value hierarchy

The Bank measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1:** Fair values are based on quoted prices (unadjusted) in active markets for identical assets.
- **Level 2:** Fair values are based on inputs other than quoted prices included within level 1 that are observable for the assets either directly (i.e. as price) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- **Level 3:** Fair values are based on valuation techniques using unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable input have a significant impact on the instrument's valuation.

During the year ended December 31, 2023 as well as the year ended December 31, 2022 there were no transfers between levels of the fair value measurement.

c. Financial instruments for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a term maturity of less than three months, the carrying amounts approximate to their fair value.

d. Fair value of financial instruments

The fair value of financial assets traded in financial markets is determined by reference to quoted market (bid prices) on a regulated exchange at the close of business on the year-end date. For financial assets where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same. Where it is not possible to arrive at a reliable estimate of the fair value, the financial assets are carried at cost less any impairment until a reliable measure of the fair value is available.

The following table provides a comparison by class of the carrying amount and fair values of the Bank's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Fair value through statement of income	Fair value through equity	Amortized cost/ other	Total Carrying Amount	Fair Value
YER 000s					2023
Financial assets					
Cash on hand and reserve balances with CE	-	-	33,274,557	33,274,557	33,274,557
Due from banks and financial institutions	-	-	36,502,310	36,502,310	36,502,310
Financing assets	-	-	2,806,191	2,806,191	2,806,191
Investments in associates	-	-	742,366	742,366	742,366
			73,325,424	73,325,424	73,325,424
Financial liabilities					
Due to banks and financial institutions	-	-	7,187,537	7,187,537	7,187,537
Current accounts and other deposits	-	-	47,651,475	47,651,475	47,651,475
Equity of unrestricted investments and saving accounts' holders	-	-	15,164,533	15,164,533	15,164,533
			70,003,545	70,003,545	70,003,545
YER 000s					2022
Financial assets					
Cash on hand and reserve balances with CE	-	-	28,995,138	28,995,138	28,995,138
Due from banks and financial institutions	-	-	30,082,084	30,082,084	30,082,084
Financing assets	-	-	2,716,692	2,716,692	2,716,692
Investments in associates	-	-	742,366	742,366	742,366
			62,536,280	62,536,280	62,536,280
Financial liabilities					
Due to banks and financial institutions	-	-	4,150,267	4,150,267	4,150,267
Current accounts and other deposits	-	-	42,379,920	42,379,920	42,379,920
Equity of unrestricted investments and saving accounts' holders	-	-	14,328,187	14,328,187	14,328,187
			60,858,374	60,858,374	60,858,374

7.2. Risk management of financial instruments

7.2.1. Risk management framework

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

7.2.2. Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks, however, there are separate independent bodies responsible for managing and monitoring risks including the following:

- **Executive Committee:** The Executive Committee has the responsibility to monitor the overall risk process within the Bank.
- **Risk Committee:** Risk Committee's primary role is selection and implementation of risk management systems, portfolio monitoring, risk reporting to the Board, Board Committee, Regulators and Executive management. In addition, Risk Committee is responsible for monitoring credit transaction approval.

- **Asset and Liability Committee:** The Asset and Liability Committee establishes policy and objectives for the asset and liability management of the Bank's financial position in terms of structure, distribution, risk and return and its impact on profitability.
- **Internal audit:** Risk management process is audited by the internal audit department by examining the adequacy of performed procedures, in addition to a specific audit of the risk management function in accordance with the approved audit plan.

7.2.3. Risk measurement

Monitoring and controlling risks are primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. Information collected from all businesses is examined and processed in order to analyze, control and identify early risks. The Bank is exposed to credit risk, liquidity risk, market risk (which include return rate risk and currency risk), operating risk and other risk.

a. Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or a counterparty to meet its contractual obligations to the Bank. Financing of Murabaha and Istisna'a transactions, Mudaraba and Musharaka contracts, Ijarah Muntahia Bittamleek and their related debts, due from banks and financial investments and rights and obligations from other parties are considered as financial assets exposed to credit risk. Credit risk represents the inability of these parties to meet their obligations when they fall due.

Management of credit risk

The Bank uses an internal risk rating system to assess the credit quality of borrowers and counterparties. The risk rating system has 5 grades. Grades 1 and 2 are performing debts and Grades 3-5 are non-performing. Non-performing grades are classified based on the below criteria which conform with CBY instructions.

Grade	Classification	Criteria
3	Sub-standard debts	Overdue greater than 90 days, and shows some loss due to adverse factors that hinder repayment.
4	Doubtful debts	Overdue greater than 180 days, and based on available information, full recovery seems doubtful, leading to loss on portion of these debts.
5	Bad debts	Overdue greater than 360 days, and probability of no recovery.

The performing debts portfolio of the Bank based on the internal credit ratings is as follows (excluding cash secured loans and advances):

Grade	Classification	2023 YER 000s	2022 YER 000s
1-2	Performing and watch list	3,051,227	3,057,762

In addition, in order to comply with CBY requirements in circular No. 10 of 1997 regarding to the credit risk exposure, the Bank adheres to certain minimum standards in order to properly manage its credit risk. The following are the procedures applied by the Bank:

- Preparing credit studies on customers and banks before dealing with them and determining their related credit risk rates.
- Obtaining sufficient collaterals to minimize the credit risk exposure which may result from financial problems facing customers or banks.

- Following up and periodical reviews of customers and banks in order to evaluate their financial positions, credit rating and the required provision for non-performing debts.
- Distributing credit portfolio and investments over diversified sectors to minimize concentration of credit risk.

The table below shows the maximum exposure to credit risk for the components of financial position and shows the maximum risk by total without taking into account the factors mitigating the impact of the risks (before deducting any guarantees).

	2023 YER 000s	2022 YER 000s
Cash on hand and reserve balances CBY (excluding cash on hand and ATMs)	5,214,108	4,673,913
Due from banks and financial institutions	36,502,310	30,082,084
Financing assets	2,806,191	2,716,692
Investments securities	742,366	742,366
Investments in associates and subsidiaries	5,968,179	5,937,127
Investments in real estate	975,975	975,975
Debit balances and other assets after deducting the advance pay	<u>3,638,220</u>	<u>3,525,773</u>
	55,847,349	48,653,930
Contingent liabilities and commitments	<u>4,768,368</u>	<u>5,448,921</u>
Total credit risk exposure	<u>60,615,717</u>	<u>54,102,851</u>

The following is an analysis for financial assets and contingent liabilities and commitments by sectors before and after the deduction of guarantees (concentration of maximum credit risk by sector):

	Gross Maximum Exposure <u>YER 000s</u>	Net Maximum Exposure <u>YER 000s</u>	Gross Maximum Exposure <u>YER 000s</u>	Net Maximum Exposure <u>YER 000s</u>
	2023		2022	
Governmental	29,009,444	-	21,065,169	-
Financial	13,246,145	13,246,145	13,392,465	13,392,465
Industrial	1,243,310	1,243,310	711,045	711,045
Trading	5,773,873	5,773,873	5,692,371	5,692,371
Constructions	4,540,935	4,540,935	7,660,687	7,660,687
Agricultural and fishing	147,295	147,295	42,882	42,882
Other	<u>1,886,347</u>	<u>1,684,515</u>	<u>89,311</u>	<u>89,310</u>
	55,847,349	26,636,073	48,653,930	27,588,760
Contingent liabilities and commitments	<u>4,768,368</u>	<u>3,504,766</u>	<u>5,448,921</u>	<u>3,404,442</u>
	<u>60,615,717</u>	<u>30,140,839</u>	<u>54,102,851</u>	<u>30,993,202</u>

The Bank manages concentration of risk by distributing the portfolio and contingent liabilities and commitments over diversified economic sectors and geographical locations. Note No. (38) Shows the distribution of assets, liabilities, contingent liabilities and commitment based on economic sectors and Note No. (39) Shows the distribution of financial instruments based on geographical locations at the financial statements date.

b. 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 and the risk arising from the inability to liquidate some funds at reasonable prices and on timely basis.

Management liquidity risk

The bank's approach to managing liquidity is to ensure, as much as possible, that it has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk of damage to the Bank's reputation.

The Bank's 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, 2023 was 89% (as at December 31, 2022 was 86 %).

The table below shows the maturity analysis for financial liabilities that shows the remaining contractual maturities:

	Within 3 Months	From 3 to 6 Months	From 6 Months to 1 Year	Over 1 Year	Total
	YER 000s		2023		
Liabilities					
Due to banks and financial institutions	7,187,538	-	-	-	7,187,538
Current accounts and other deposits	47,154,540	-	-	496,935	47,651,475
Equity of unrestricted investments and saving accounts' holders	7,614,378	332,864	431,577	6,785,714	15,164,533
Credit balances and other liabilities	1,382,112	-	-	215,118	1,597,230
Total liabilities	63,338,568	332,864	431,577	7,497,767	71,600,776
Liabilities					
Due to banks and financial institutions	4,150,267	-	-	-	4,150,267
Current accounts and other deposits	41,882,355	-	-	496,935	42,379,290
Equity of unrestricted investments and saving accounts' holders	7,482,043	180,580	-	6,665,564	14,328,187
Credit balances and other liabilities	1,787,883	-	-	274,955	2,062,838
Total liabilities	55,302,548	180,580	-	7,437,454	62,920,582

Note (37) shows the maturity analysis of financial assets and liabilities and the net gap between them at the financial statements date compared with last year.

c. Market risk

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit margin that will affect the Bank's income, future cash flows or the value of its holdings of financial instruments. Market risk consists of exchange rate risk and return (profit) rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

The Bank separates exposure to market risk between two portfolios; a trading portfolios and non-trading portfolios.

The Bank has no trading positions in equity or commodities and the main source of market risk for the Bank is its foreign exchange exposure and return rate (profit).

The Bank does not engage in forward contracts to meet its obligations in foreign currencies, nor does it engage in foreign exchange contracts to cover the risk of settlement of future liabilities in foreign currencies or its customers' need to meet their obligations in foreign currencies resulting from their transaction through the Bank.

Treasury department books all foreign exchange gain/losses arising out of customer transactions and revaluation of statement of financial position assets and liabilities. The responsibility for monitoring and managing the related risks also rests with the Treasury department.

Overall authority for market risk management is vested with Management Committee of Assets and Liabilities. Risk Management Department is responsible for the development of detailed risk management policies (subject to review and approval by Board of Directors) and the Financial Control Department is responsible for the day-to-day review of their implementation.

Return rate risk

Return due on unrestricted investments and saving accounts is determined on the basis of Mudaraba contract, which determine profit (loss) 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.

Note (29) to the financial statements shows the average return (rate) allocated to equity of unrestricted investments and saving accounts holders during the year compared with last year.

The following table shows the return rate gap position:

2023	Up to 3 Months	3 to 6 Months	6 to 12 Months	Over one year	Non- profit sensitive	Total
Assets						
Cash on hand and reserve balances with CBY	-	-	-	-	33,274,557	33,274,557
Due from banks and financial institutions	12,706,974	-	-	-	23,795,336	36,502,310
Financing assets	-	184,619	1,343,781	1,277,791	-	2,806,191
Investments in securities	-	-	-	-	742,366	742,366
Investments in subsidiaries and associates	-	-	-	-	5,968,179	5,968,179
Investments in real estate	-	-	-	-	975,975	975,975
Debit balances and other assets	852	-	-	575,341	3,894,172	4,470,365
Property and equipment	-	-	-	-	5,037,340	5,037,340
	12,707,826	184,619	1,343,781	1,853,132	73,687,925	89,777,283
Liabilities, investment accounts' holders and equity						
Due to banks and financial institutions	7,187,537	-	-	-	-	7,187,537
Current accounts and other deposits	1,822,284	-	-	-	45,829,191	47,651,475
Credit balances and other liabilities	-	-	-	-	1,597,230	1,597,230
Other provisions	-	-	-	-	35,048	35,048
Equity of unrestricted Investments and saving accounts' holders	7,614,378	764,441	-	6,785,714	-	15,164,533
Share holders' equity	-	-	-	-	18,141,460	18,141,460
	16,624,199	764,441	-	6,785,714	65,602,929	89,777,283
Return rate gap	(3,916,373)	(579,822)	1,343,781	(4,932,582)	8,084,996	-
cumulative gap	(3,916,373)	(4,496,195)	(3,152,414)	(8,084,996)	-	-

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2022	Up to 3 Months	3 to 6 Months	6 to 12 Months	Over one year	Non- profit sensitive	Total
Assets						
Cash on hand and reserve balances with CBY	-	-	-	-	28,995,138	28,995,138
Due from banks and financial institutions	13,690,828	-	-	-	16,391,256	30,082,084
Financing assets	2,663,810	31,618	21,264	-	-	2,716,692
Investments in securities	-	-	-	-	742,366	742,366
Investments in subsidiaries and associates	-	-	-	-	5,937,127	5,937,127
Investments in real estate	-	-	-	-	975,975	975,975
Debit balances and other assets	-	-	-	585,885	3,377,519	3,963,404
Property and equipment	-	-	-	-	4,530,787	4,530,787
	16,354,638	31,618	21,264	585,885	60,950,168	77,943,573
Liabilities, investment accounts' holders and equity						
Due to banks and financial institutions	4,150,267	-	-	-	-	4,150,267
Current accounts and other deposits	2,690,414	-	-	-	39,688,876	42,379,290
Credit balances and other liabilities	-	-	-	-	2,062,838	2,062,838
Other provisions	-	-	-	-	34,044	34,044
Equity of unrestricted Investments and saving accounts' holders	7,482,045	180,580	-	6,665,562	-	14,328,187
Share holders' equity	-	-	-	-	14,988,947	14,988,947
	14,322,726	180,580	-	6,665,562	56,774,705	77,943,573
Return rate gap	2,031,912	(148,962)	21,264	(6,079,677)	4,175,463	-
cumulative gap	2,031,912	1,882,950	1,904,214	(4,175,463)	-	-

Exchange rate risk for foreign currencies

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rate and arises from financial instruments denominated in a foreign currency. The Bank's functional currency is the Yemeni Rial.

Due to the nature of the Bank's activity, the Bank deals in different foreign currencies, hence it is exposed to exchange rate risk. In order to minimize the exposure to exchange rate risk, the Bank is trying to maintain a balanced foreign currencies position in compliance with CBY instructions and the requirements of CBY circular No. 6 of 1998 which specifies that individual foreign currency positions should not exceed 15% of the Bank's capital and reserves, and according to Circular No. 4975 issued by the Central Bank of Yemen, the aggregate long position for all foreign currencies should not exceed 25% of the Bank's capital and reserves.

In order to comply with CBY circular No. (6) of 1998 and Circular No. (4975), the Bank regularly monitors its foreign currency positions and sells the excess funds in foreign currencies at the prevailing exchange rates at the date of transaction.

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The table below shows the Bank's net exposures to foreign currencies compared with last year according to the closing rates set in the Central Bank of Yemen's bulletin for December:

	US Dollar	Euro	Saudi Rial	Sterling Pound	Others	Total
	YER 000s			2023		
Assets	23,091,570	1,346,790	15,418,860	138,417	1,497,906	41,493,543
Liabilities	(22,127,221)	(1,338,146)	(17,557,518)	(138,836)	(96,581)	(41,258,302)
Net currency position	964,349	8,644	(2,138,658)	(419)	1,401,325	235,241
	YER 000s			2022		
Assets	26,778,773	542,356	11,649,797	193,312	1,911,059	41,075,297
Liabilities	(25,180,077)	(543,285)	(14,631,469)	(191,573)	(269,912)	(40,816,316)
Net currency position	1,598,696	(929)	(2,981,672)	1,739	1,641,147	258,981

The table below shows net exposure to foreign currencies during the year compared with last year according to the average market exchange rate:

	US Dollar	Euro	Saudi Rial	Sterling Pound	Others	Total
	YER 000s			2023		
Assets	51,673,444	3,013,796	34,503,743	309,744	3,351,957	92,852,684
Liabilities	(49,515,460)	(2,994,453)	(39,289,551)	(310,682)	(216,125)	(92,326,271)
Net currency position	2,157,984	19,343	(4,785,808)	(938)	3,135,832	526,413
	YER 000s			2022		
Assets	59,924,527	1,213,664	26,069,476	432,586	4,276,496	91,916,749
Liabilities	(56,347,025)	(1,215,743)	(32,741,749)	(428,695)	(603,999)	(91,337,211)
Net currency position	3,577,502	(2,079)	(6,672,273)	3,891	3,672,497	579,538

Effect of change in fair value of currency (Sensitivity analysis)

The table below indicates the significant foreign currency rates at the end of the year compared with last year:

Currency	The closing exchange rates		The average exchange rate	
	According to CBY		According to the Market Rates*	
	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022
	Equivalent	Equivalent	Equivalent	Equivalent
	YER	YER	YER	YER
USD	250.25	250.25	1,032.00	885.00
Euro	276.21	265.90	1,144.21	944.27
Saudi Riyal	66.73	66.57	271.85	234.30
Sterling Pound	316.60	301.30	1,319.12	1,072.22

* The Bank's management were dependent on the last transactions carried out to determine the average market exchange rate.

In compliance with the instructions of CBY, the Bank applied the closing exchange rates of CBY for the translation of foreign exchange balances as at December 31 2023 and 2022.

Taking into account the average exchange rates in the market, the table below indicates the effect of a reasonably possible movement of the currency rate against the Yemeni Rial on the income statement, with all other variables held constant:

Currency	Effect on Income	
	Statement Increase (Decrease)	
	2023 YER 000s	2022 YER 000s
USD	4,994,128	4,055,034
Euro	27,164	(2,370)
Saudi Riyal	(6,573,978)	(7,512,631)
Sterling Pound	(1,316)	4,449
Others	4,440,441	4,100,390

Note (40) indicates the significant foreign currencies' positions at the financial statements date compared with last year.

d. Operational risk

Operational risk is the risk of direct or indirect loss due to an event or action causing failure of technology, process, infrastructure, personnel and other risks having an operational risk impact. The Bank seeks to minimize actual or potential losses from operational risks failure through a framework of policies and procedures that identify, assess, control, manage and report those risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures and raising staff awareness about those risks and the means to assess them.

e. Other risks

Other risks to which the Bank is exposed are regulatory risk, legal risk, and reputational risk. Regulatory risk is controlled through a framework of compliance policies and procedures. Legal risk is managed through the effective use of internal and external legal advisers. Reputational risk is controlled through the regular examination of issues that are considered to have reputational repercussions for the Bank, with guidelines and policies being issued as appropriate.

8. Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with capital requirements which are issued by the CBY, and that the Bank maintains strong credit ratings and excellent capital ratios. The capital adequacy are monitored on a quarterly basis by the management of the Bank employing techniques based on the guidelines as implemented by the CBY for supervisory purposes. The Bank prepares a quarterly reports for capital adequacy ratio in accordance with CBY circular No. (2) of 1997.

The CBY requires each bank in Yemen to maintain a minimum ratio of total capital to the risk-weighted assets at or above the internationally agreed minimum of 8%. In addition, the Bank is required to maintain a minimum ratio of total capital to the customer deposits at or above 5%.

The capital adequacy ratio is calculated in accordance with the guidelines of CBY comparing between the core and supplementary capital with risk weighted total assets and liabilities at the financial statements date, as follows:

	2023 YER Millions	2022 YER Millions
Core capital	17,945	14,796
Supplementary capital	61	61
Total capital	18,006	14,857
Risk-weighted assets and liabilities:		
Total assets	31,032	30,050
Contingent liabilities and commitments	1,433	1,386
Total risk-weighted assets and liabilities	32,465	31,436
Capital adequacy ratio	55.46%	47.26%

The core capital consists of paid-up capital, reserves (statutory and general) and retained earnings or deficits (after deducting investment in any local bank or financial company) and the deficit in provisions, while supplementary capital consists of general provisions on performing debts which should not exceed 2% of risk weighted assets. The supplementary capital must not exceed 100% of the core capital.

9 Cash and reserve balances with Central Bank of Yemen

	2023 YER 000s	2022 YER 000s
Cash on hand and at ATM machines - local currency	12,825,646	10,485,244
Cash on hand and at ATM machines - foreign currency	15,234,803	13,835,981
	28,060,449	24,321,225
 Mandatory reserve with CBY - local currency	 1,781,178	 1,474,967
Mandatory reserve with CBY - foreign currency	3,432,930	3,198,946
	5,214,108	4,673,913
	33,274,557	28,995,138

The reserve balances with CBY represent the minimum reserve required against customers' accounts in Yemeni Rial and foreign currencies (non-return bearing). These funds are not available for the use in the Bank's day to day operations.

10 Due from banks and financial institutions

	2023 YER 000s	2022 YER 000s
Central Bank of Yemen:		
Current account - local currency	18,710,223	11,120,591
Current account - foreign currency	5,085,113	5,270,665
	23,795,336	16,391,256
 Local Banks:		
Current account - local currency	425,109	215,996
Current account - foreign currency	2,328,672	1,143,711
Deposit - local currency	-	-
	2,753,781	1,359,707

Foreign Banks:

Current account - local currency	37,744	31,328
Current account - foreign currency	9,949,633	12,329,487
Deposit - foreign currency	-	-
	9,987,377	12,360,815
Deposit - foreign currency	-	-
	36,536,494	30,111,778
Less:		
Impairment provision on balances with banks	10.1	(34,184)
		(29,694)
	36,502,310	30,082,084

Provision for impairment was recognised to cover expected credit losses on balances due from Lebanese banks impacted by the significant degree of uncertainty surrounding the Lebanese banking system.

10.1 Impairment provision on balances with banks

	2023 YER 000s	2022 YER 000s
Balance at 1 January	29,694	-
Provided during the year	4,490	29,694
Used during the year	-	-
Balance at the end of the year	34,184	29,694

11 Financing assets

	Notes	2023 YER 000s	2022 YER 000s
Murabaha		3,108,575	4,201,799
Musawama		568,387	-
Istisna'a		3,192	1,499
Ijarah Muntahia Bittamleek		805,173	910,746
Qard Hasan		698,442	-
		5,183,769	5,114,044
Less:			
Allowance for expected credit losses	11.1	(2,089,816)	(2,064,555)
Deferred revenues		(156,208)	(204,477)
Suspended revenues		(131,554)	(128,320)
		(2,377,578)	(2,397,352)
		2,806,191	2,716,692

- Financing assets include real estate financing amounting to 525,235 USD (2022: 797,855 USD)
- According to the Banks Law No . (38) of 1998, Article No. 85, and Income Tax Law No . (17) of 2010, Article No . 14, all provisions made in compliance with the Central Bank of Yemen instructions are exempt from income tax
- Non-performing financing Murabaha, Istisna'a and Ijarah transactions amounted to YER 2,127,461 thousand as at December 31, 2023 after deducting balances secured by cash deposits (YER 1,904,904 thousand as at December 31, 2022 after deducting balances secured by cash deposits). The break-up of the above amount is as follows:

		2023 YER 000s	2022 YER 000s
Bad debts		1,972,997	1,829,048
Doubtful debts		106,192	38,661
Substandard debts		48,272	37,198
		2,127,461	1,904,907

- The following table illustrates the financing assets, based on credit risk rating, and the corresponding cash guarantees, deferred and suspended revenues and impairment provision by currency

	Gross financing			Guarantees			Suspended revenues			Deferred revenues			Impairment Provision		
	Local Currency	Foreign Currency	Total	Local Currency	Foreign Currency	Total	Local Currency	Foreign Currency	Total	Local Currency	Foreign Currency	Total	Local Currency	Foreign Currency	Total
Performing	1,008,474	1,939,582	2,948,056	1,036,177	1,180,291	2,216,468	-	-	-	100,902	55,306	156,208	20,171	38,795	58,966
Watch list	22,281	80,890	103,171	19,441	151,375	170,816	-	-	-	-	-	-	446	1,618	2,064
Sub-standard	18,569	34,784	53,353	5,081	-	5,081	-	-	-	-	-	-	2,786	5,217	8,003
Doubtful	3,891	102,301	106,192	-	-	-	-	-	-	-	-	-	1,751	46,035	47,786
Bad	232,962	1,740,035	1,972,997	-	-	-	27,810	103,744	131,554	-	-	-	232,962	1,740,035	1,972,997
Total	1,286,177	3,897,592	5,183,769	1,060,699	1,331,666	2,392,365	27,810	103,744	131,554	100,902	55,306	156,208	258,116	1,831,700	2,089,816
Performing	832,474	2,104,529	2,937,004	582,487	384,606	967,093	-	-	-	98,133	106,344	204,477	16,649	42,091	58,740
Watch list	8,375	112,383	120,758	-	14,137	14,137	-	-	-	-	-	-	168	2,247	2,415
Sub-standard	-	37,198	37,198	-	-	-	-	-	-	-	-	-	-	5,580	5,580
Doubtful	-	38,661	38,661	-	151,375	151,375	-	-	-	-	-	-	-	17,398	17,398
Bad	232,815	1,747,608	1,980,423	-	-	-	27,638	100,682	128,320	-	-	-	232,815	1,747,607	1,980,422
Total	1,073,665	4,040,379	5,114,044	582,487	550,119	1,132,606	27,638	100,682	128,320	98,133	106,344	204,477	249,632	1,814,923	2,064,555

11.1 Movement in allowance for expected credit losses of financing assets (performing and non-performing)

	Specific YER 000s	General YER 000s	Total 2023
Balance at 1 January	2,003,400	61,155	2,064,555
Provided during the year	39,356	-	39,356
Used during the year	-	-	-
Reversed during the year	-	(14,095)	(14,095)
Balance at 31 December	2,042,756	47,060	2,089,816
Balance at 1 January	2,610,137	51,790	2,661,927
Provided during the year	-	9,365	9,365
Used during the year	-	-	-
Reversed during the year	(606,737)	-	(606,737)
Balance at 31 December	2,003,400	61,155	2,064,555

11.2 Concentration of financing assets

11.2.1 By industry sector

	Commercial			Industrial			Agricultural			Construction		
	Local	Foreign	Total	Local	Foreign	Total	Local	Foreign	Total	Local	Foreign	Total
	Currency	Currency	Currency	Currency	Currency	Currency	Currency	Currency	Currency	Currency	Currency	Currency
2023												
Gross financing	357,250	2,401,916	2,759,166	45,189	181,211	226,400	54,459	1,918	56,377	-	131,440	131,440
	Other			Total			Total			Total		
	Local	Foreign	Total	Local	Foreign	Total	Local	Foreign	Total	Local	Foreign	Total
	Currency	Currency	Currency	Currency	Currency	Currency	Currency	Currency	Currency	Currency	Currency	Currency
Gross financing	829,279	1,181,107	2,010,386	1,286,177	3,897,592	5,183,769						
2022												
Gross financing	365,730	2,381,572	2,747,302	76,017	950,861	1,026,878	61,684	200	61,884	-	199,663	199,663
	Other			Total			Total			Total		
	Local	Foreign	Total	Local	Foreign	Total	Local	Foreign	Total	Local	Foreign	Total
	Currency	Currency	Currency	Currency	Currency	Currency	Currency	Currency	Currency	Currency	Currency	Currency
Gross financing	570,233	508,083	1,078,316	1,073,665	4,040,379	5,114,044						

11.2.2 By geographical location

	2023	2022	
	<u>YER 000s</u>	<u>YER 000s</u>	
Republic of Yemen	5,183,769	5,114,044	
Asia	-	-	
Europe	-	-	
America	-	-	
Africa	-	-	

12 Investments in Islamic sukuk

2023 **2022**
YER 000s **YER 000s**

Debt-type instruments - sukuks at amortized cost (unquoted)

Islamic sukuks – local

- Investments in local Islamic Sukuks are issued by the unit of the Islamic Sukuk at CBY (unquoted), with a maturity on or before 31 December 2023 and 2022.
- The Yemeni Government represented by the Ministry of Finance guarantees the Sukuk at the maturity dates and authorized the Central Bank of Yemen to deduct such dues from the Ministry of Finance account with the Central Bank of Yemen at the maturity dates.

13 Investments securities

	<u>Notes</u>	<u>2023 YER 000s</u>	<u>2022 YER 000s</u>
Equity-type investments at amortized cost		808,794	808,794
Less:			
Allowance for impairment	13,1	(66,428)	(66,428)
		<u>742,366</u>	<u>742,366</u>

- Investment securities are local unquoted equity-type investments. Due to the difficulty of obtaining a reliable estimate of fair value for these investments as there are no quoted market prices and future cash flows are not determinable, these investments are carried at cost less the impairment allowance.

13.1 Allowance for impairment

	2023 <u>YER 000s</u>	2022 <u>YER 000s</u>
Balance at 1 January	66,428	66,428
Charge during the Year	-	-
Used during the year	-	-
Balance at 31 December	66,428	66,428

In accordance with CBY instructions, the Bank is required to enhance impairment allowance by YER 551,449 thousand to cover the bank's share of accumulated losses for certain equity-type investments.

14 Investments in subsidiaries and associates

	<u>Notes</u>	2023 YER 000s	2022 YER 000s
Investments in subsidiaries	14,1	5,319,979	5,288,927
Investments in associates	14,2	648,200	648,200
		5,968,179	5,937,127

14.1 Investments in subsidiaries

<u>Name of the Company</u>	Company's Activities	Country of Incorporatio	2023	2022	2023	2022
			Ownership %	YER 000s	YER 000s	YER 000s
Al-Shamil for Tiles Factory	Building materia	Yemen	100%	100%	500,000	500,000
Venesia Hotel (Project under developi	Hospitality	Yemen	100%	100%	4,674,479	4,643,427
AL-Shamel Yemen Industrial and Trading Co. Ltd	Multi-sector	Yemen	97%	97%	145,500	145,500
					5,319,979	5,288,927

- Investment in Venesia hotel represents buildings and plots of land that have been acquired by the bank in 2021 as settlement of financing assets. The bank's board of directors decided to rehabilitate and operate the hotel as an independent wholly owned subsidiary. Work is still in progress.
- The Bank's Board of Directors approved the establishment of Al-Shamel Yemen Industrial and Trading Company with a paid-up capital of YER 150 million. The incorporation procedures have not been completed

14.2 Investments in associates

	Company's Activities	Country of Incorporatio	2023	2022	2023	2022
			Ownership %	YER 000s	YER 000s	YER 000s
Al-Raida Construction Company	Real Estate	Yemen	35%	35%	648,200	648,200

15 Investments in real estate

	2023	2022
	YER 000s	YER 000s
Balance at 1 January	975,975	975,975
Additions	-	-
Disposals	-	-
Balance at 31 December	975,975	975,975
Less: Impairment provision on value of real estate investments	-	-
	975,975	975,975

- Investment in real estate represents the value of property located in Sana'a that was acquired in settlement of financing assets.

16 Debit balances and other assets

	2023	2022
Notes	YER 000s	YER 000s
Asset transferred to Bank's ownership*	3,046,956	3,013,480
Current accounts overdrawn	576,193	585,885
Employees advances	248,917	199,493
Prepaid expenses	230,005	111,630
Stationery inventory	94,127	97,687
Projects in process	602,140	326,001
Other debit balances	436,582	415,285
	5,234,920	4,749,461
Less:		
Provision for doubtful debit balances and other assets	16.1 (764,555)	(786,057)
	4,470,365	3,963,404

* The Bank is currently taking the necessary procedures to notarize some of the assets which were transferred to the Bank's ownership with the relevant Government authorities. Movement in Assets transferred to the Bank's ownership is as follows:

	2023 YER 000s	2022 YER 000s
Balance at 1 January	3,013,480	6,307,660
Additions	206,666	1,346,647
Disposals	(173,190)	(4,640,827)
	<u><u>3,046,956</u></u>	<u><u>3,013,480</u></u>

16.1 Provision for doubtful debit balances and other assets

	2023 YER 000s	2022 YER 000s
Balance at 1 January	786,057	2,253,724
Provided during the year	-	-
Used during the year	(1,237)	-
Reversed during the year	(20,265)	(1,467,667)
Balance at 31 December	<u>764,555</u>	<u>786,057</u>

17 Property and equipment

	Lands	Building	Machinery & Equipment	Motor & Vehicles	Furniture & Fixtures	Computer & Equipment	Leasehold Improvements on building	Total								
	YER 000s						2023									
Cost																
Balance at 1 January1	2,967,870	1,090,495	753,069	187,182	399,574	934,398	54,277	6,386,865								
Additions	512,643	-	46,827	10,265	25,699	59,631	6,176	661,241								
Disposals	-	-	(21,477)	(3,910)	(586)	(6,485)	-	(32,458)								
Balance at 31 December	<u>3,480,513</u>	<u>1,090,495</u>	<u>778,419</u>	<u>193,537</u>	<u>424,687</u>	<u>987,544</u>	<u>60,453</u>	<u>7,015,648</u>								
Accumulated depreciation																
Balance at 1 January1	-	58,019	523,075	122,952	291,568	815,248	45,216	1,856,078								
Depreciation for the year	-	26,065	60,387	20,304	9,620	34,843	2,236	153,455								
Disposals	-	-	(20,533)	(3,910)	(586)	(6,196)	-	(31,225)								
Balance at 31 December	<u>-</u>	<u>84,084</u>	<u>562,929</u>	<u>139,346</u>	<u>300,602</u>	<u>843,895</u>	<u>47,452</u>	<u>1,978,308</u>								
Carrying amount at 31 Dec	<u>3,480,513</u>	<u>1,006,411</u>	<u>215,490</u>	<u>54,191</u>	<u>124,085</u>	<u>143,649</u>	<u>13,001</u>	<u>5,037,340</u>								
	YER 000s						2022									
Cost																
Balance at 1 January1	2,936,875	835,652	668,753	182,724	388,890	851,552	54,099	5,918,545								
Additions	30,995	254,843	114,488	16,698	27,224	91,970	178	536,396								
Disposals	-	-	(30,172)	(12,240)	(16,540)	(9,124)	-	(68,076)								
Balance at 31 December	<u>2,967,870</u>	<u>1,090,495</u>	<u>753,069</u>	<u>187,182</u>	<u>399,574</u>	<u>934,398</u>	<u>54,277</u>	<u>6,386,865</u>								
Accumulated depreciation																
Balance at 1 January1	-	39,829	500,888	116,166	289,930	801,431	42,276	1,790,520								
Depreciation for the year	-	18,190	50,486	18,858	15,837	22,790	2,940	129,101								
Disposals	-	-	(28,299)	(12,072)	(14,199)	(8,973)	-	(63,543)								
Balance at 31 December	<u>-</u>	<u>58,019</u>	<u>523,075</u>	<u>122,952</u>	<u>291,568</u>	<u>815,248</u>	<u>45,216</u>	<u>1,856,078</u>								
Carrying amount at 31 Dec	<u>2,967,870</u>	<u>1,032,476</u>	<u>229,994</u>	<u>64,230</u>	<u>108,006</u>	<u>119,150</u>	<u>9,061</u>	<u>4,530,787</u>								

18 Due to banks and financial institutions

	2023 YER 000s	2022 YER 000s
Local Banks		
Current accounts - local currency	7,076,086	3,955,650
Current accounts -foreign currency	111,451	194,617
	7,187,537	4,150,267
Foreign banks and financial institutions		
Current accounts - foreign currency	-	-
	-	-
	7,187,537	4,150,267

19 Current accounts and other deposits

19.1 Current accounts and other deposits by type

	2023 YER 000s	2022 YER 000s
Current accounts - local currency	18,448,264	13,556,401
Current accounts -foreign currency	25,796,932	23,774,316
	44,245,196	37,330,717
Cash margins - local currency	486,193	441,812
Cash margins - foreign currency	1,097,802	1,916,347
	1,583,995	2,358,159
Other deposits - local currency	1,004,882	1,971,987
Other deposits - foreign currency	817,402	718,427
	1,822,284	2,690,414
	47,651,475	42,379,290

19.2 Current accounts and other deposits by sector

	2023 YER 000s	2022 YER 000s
Commercial	12,148,629	23,292,855
Industrial	3,292,352	2,754,065
Agricultural and fishing	720,339	239,046
Individuals and others	31,490,155	16,093,324
	47,651,475	42,379,290

20 Credit balances and other liabilities

	Notes	2023 YER 000s	2022 YER 000s
Murabahat in progress		596,784	751,235
Other credit balances		439,067	439,213
Accrued expenses		344,122	425,841
Income tax for the year	20 .1	217,257	446,549
		1,597,230	2,062,838

20 .1 Income tax for the year

	<u>Notes</u>	2023 YER 000s	2022 YER 000s
Balance at the beginning of the year		446,549	753,589
Charged during the year	20 .1 .1	267,257	496,549
Paid during the year		(446,549)	(753,589)
Advance payment		(50,000)	(50,000)
Balance at the end of the year		217,257	446,549

20 .1 .1 Charged during the year

Profit as per financial statements	3,419,770	5,471,427
Non- deductible Expenses	205,329	300,375
Tax-exempt income	(2,273,355)	(3,267,786)
	1,351,744	2,504,016
Tax expense at statutory rate	270,349	500,803
Reduction in tax rate	(3,092)	(4,254)
Net tax for the year	267,257	496,549

21 Other provisions

	Balance at 1 January	Provided during the year	Used during the year	Reversed during the year	Balance at 31 December
		YER 000s			2023
Provision for contingent liabilities	23,246	1,004	-	-	24,250
Provision for contingent claims	10,798	-	-	-	10,798
	34,044	1,004	-	-	35,048
		YER 000s			2022
Provision for contingent liabilities	21,175	2,071	-	-	23,246
Provision for contingent claims	10,798	-	-	-	10,798
	31,973	2,071	-	-	34,044

22 Equity of Unrestricted investment and saving accounts' holders

22 .1 Equity of unrestricted Investments and saving accounts' holders by type

	2023 YER 000s	2022 YER 000s
Investments deposits - local currency	4,162,521	2,172,658
Investments deposits - foreign currency	3,387,634	4,993,639
	7,550,155	7,166,297
Saving deposits - local currency	2,461,701	2,094,021
Saving deposits - foreign currency	5,152,677	5,067,869
	7,614,378	7,161,890
	15,164,533	14,328,187

Equity of unrestricted investment accounts' holder's funds are commingled with the Bank's funds and used to fund/invest in assets and contracts in accordance with Islamic practices.

22.2 Equity of unrestricted Investments and saving accounts' holders by sectors

	2023 YER 000s	2022 YER 000s
Commercial	1,853,954	1,383,733
Industrial	157,668	379
Agricultural and fishing	51,262	-
Individuals and others	13,101,649	12,944,075
	<u>15,164,533</u>	<u>14,328,187</u>

23 Share Capital

The issued and paid-up capital amounted to YER 12.7 billion as at December 31, 2023, distributed to 6 million shares with a nominal value amounting to YER 2,166.67 per share (2022: YER 8.8 billion with a nominal value amounting to YER 1,466.67 per share) in accordance with the shareholders ' Extraordinary General Assembly decree dated May 24, 2005 which also complies with the CBY Board of Directors decree No. (12) of 2004 related to the increase of capital to YER 6 billion.

In its meeting held on October 31, 2022, the extraordinary general assembly of shareholders approved a capital increase of YER 2.8 billion YR , funded from retained earnings , in compliance with CBY Resolution No . (1) of 2022, which requires banks operating in Yemen to raise their capital to 20 billion YR within five years, starting from 2022.

On 30 August 2023, the Bank 's extraordinary general assembly of shareholders approved a capital increase of YER 3.9 billion, funded from retained earnings and general reserve.

24 Statutory reserve

In accordance with the Islamic Banking Law No .(21) of 1996 as amended by Law No .(16) of 2009 and the amended Articles of Association of the Bank , 10% of the annual net profit is required to be transferred to statutory reserve until the balance of this reserve reaches twice the share capital.

The Bank cannot use this reserve without the prior approval of the CBY . As at December 31, 2023, the statutory reserve amounted to YER 2,150,036 thousand (YER 1,677,159 thousand as at December 31, 2022). During the year ended 31 December 2023, the Central Bank of Yemen has issued Circular No . (1) which refers to adjusting the statutory reserve percentage to 15% of the annual net profit.

25 General reserve

In accordance with the provisions of the Bank 's Articles of Association, 5% of the annual net profit is required to be transferred to the general reserve based on the discretion of the board of directors and is subject to the approval of the general assembly.

26 Contingent liabilities and commitments

	Gross Commitments	Margin Held	Net Commitments
	YER 000s	2023	
Letters of guarantee	1,741,785	(144,566)	1,597,219
Letters of credit	3,026,583	(1,119,036)	1,907,547
	4,768,368	(1,263,602)	3,504,766
	YER 000s	2022	
Letters of guarantee	2,496,117	(909,825)	1,586,292
Letters of credit	2,952,804	(1,134,654)	1,818,150
	5,448,921	(2,044,479)	3,404,442

27 Income from financing activities

	2023	2022
	YER 000s	YER 000s
Income from financing Murabaha transactions	425,374	257,475
Income from financing Musawama transactions	18,733	-
Income from Istisna'a transactions	126	340
	444,233	257,815

28 Income from other Joint Investments

	2023	2022
	YER 000s	YER 000s
Income from banks and financial institutions:		
Income from Wakala placements	944,144	398,487
	944,144	398,487
Other revenues:		
Dividend income	572,368	1,258,214
Income from Investments deposits	-	4,087
Income from other investments	59,131	29,335
	631,499	1,291,636
	1,575,643	1,690,123

29 Return on unrestricted investments and saving accounts holders

	2023	2022
	YER 000s	YER 000s
Share of unrestricted investment accounts' holders of the profit of the year	1,031,900	618,494
Less: Bank's share as Mudarib	(444,116)	(152,443)
	587,784	466,051

The shares of return for unrestricted investment and saving accounts' holders from total return on investment achieved during the year are allocated between customers and owners based on various financing and joint investments, then the customers' shares are distributed among themselves based on the percentage of their participation weighted by numbers. This calculation is proposed by the budget committee, which calculates investments in local and foreign currencies and their related numbers as well as participation ratios and is approved by the Bank's Board of Directors. The average return ratios were as follows:

	YER	USD	YER	USD
	%	%	%	%
	2023		2022	
Investments deposits for one year	10.00	3.00	8.50	2.50
Investments deposits for 6 months	7.06	1.80	6.00	1.50
Investments deposits for 3 months	4.70	1.50	4.00	1.25
Investments saving accounts	4.12	1.50	3.50	1.25

30 Fee and commission income

	2023	2022
	YER 000s	YER 000s
Commission on cash transfers	541,942	590,698
Other fees and commissions	288,322	209,715
Commissions on letters of credit	115,821	79,655
Commissions on letters of guarantee	30,079	36,917
	976,164	916,985

31 Gains on foreign currencies transactions, net

Gains on foreign currency transactions arise mainly from dealing in foreign currencies in areas with high exchange rate.

32 Other operating income

	2023	2022
	YER 000s	YER 000s
Provisions reversed:		
Allowance for expected credit losses on financing assets	14,095	606,737
Provision for doubtful debit balances and other assets	20,265	1,467,667
Qard Hasan's provision	-	101,852
	34,360	2,176,256
Rents	15,301	25,368
Gain on sale of property and equipment and assets transferred to Bank's ownership	306,474	12,548
Others	75,081	36,910
	431,216	2,251,082

33 Provisions charged to income statement

	2023 YER 000s	2022 YER 000s
Allowance for expected credit losses on financing assets	39,356	9,365
Provision for contingent liabilities	1,004	2,071
Impairment provision on balances with banks	4,490	29,694
	<u>44,850</u>	<u>41,130</u>

34 Staff costs

	2023 YER 000s	2022 YER 000s
Basic salaries, allowances and incentive	2,415,941	1,862,471
Bank's contributions in social security	131,673	91,179
	<u>2,547,614</u>	<u>1,953,650</u>

35 Other expenses

	2023 YER 000s	2022 YER 000s
Security	112,983	95,954
Zakat	212,000	185,000
Rent	130,522	116,729
Fuel and lubricants	193,409	245,951
Maintenance	117,433	111,032
Communication	104,097	111,358
Hospitality	45,767	38,489
Sundry expenses	113,726	101,020
Insurance expenses	86,074	84,225
Water and electricity	70,535	76,993
Transportation	54,424	50,319
Cleaning expenses	57,165	44,062
Stationery	34,837	36,860
Professional and consultancy fees	44,309	30,647
Training	33,760	38,291
Advertising and publicity	52,619	47,583
Government fees and subscription	13,589	13,220
Premiums for the guarantee of deposits	52,155	33,062
Travel expenses	72,957	52,981
Others	154,306	147,143
	<u>1,756,667</u>	<u>1,660,919</u>

36 Earnings per share

	2023 YER 000s	2022 YER 000s
Net profit for the year (YER 000s)	3,152,513	4,974,878
Number of shares (thousand shares)	6,000	6,000
Earnings per share (YER)	<u>525.42</u>	<u>829.15</u>

37 Maturities of financial assets and liabilities

	Due within 3 Months	Due from 3 to 6 Months	Due from 6 Months to one year	Due over one Year	YER Million	
					2023	Total
Assets:						
Cash on hand and reserve balances with CBY	33,275	-	-	-		33,275
Due from banks and financial institutions	36,502	-	-	-		36,502
Financing assets	-	185	1,344	1,277		2,806
Investments securities	-	-	-	742		742
Investments in subsidiaries and associates	-	-	-	5,968		5,968
Investments in real estate	-	-	-	976		976
Overdraft accounts	-	-	-	576		576
	69,777	185	1,344	9,539		80,845
Liabilities:						
Due to banks and financial institutions	7,188	-	-	-		7,188
Current accounts and other deposits	47,651	-	-	-		47,651
Equity of unrestricted Investments and saving accounts' holders	7,614	333	432	6,786		15,165
	62,453	333	432	6,786		70,004
Net	7,324	(148)	912	2,753		10,841
Assets:						
Cash on hand and reserve balances with CBY	28,995	-	-	-		28,995
Due from banks and financial institutions	30,082	-	-	-		30,082
Financing assets	2,664	32	21	-		2,717
Investments securities	-	-	-	742		742
Investments in subsidiaries and associates	-	-	-	5,937		5,937
Investments in real estate	-	-	-	976		976
Overdraft accounts	-	-	-	586		586
	61,741	32	21	8,241		70,035
Liabilities:						
Due to banks and financial institutions	4,150	-	-	-		4,150
Current accounts and other deposits	42,379	-	-	-		42,379
Equity of unrestricted Investments and saving accounts' holders	7,482	181	-	6,665		14,328
	54,011	181	-	6,665		60,857
Net	7,730	(149)	21	1,576		9,178

38 Distribution of assets, liabilities, and contingent liabilities and commitments based on economic sectors

	Manufacturing	Trading	Agricultural and Fishing	Financial	Individual & Others	Total
	YER Million				2023	
Assets:						
Cash on hand and reserve balances with CBY	-	-	-	33,275	-	33,275
Due from banks and financial institutions	-	-	-	36,502	-	36,502
Financing assets	-	1,841	5	-	960	2,806
Investments securities	459	-	91	192	-	742
Investments in subsidiaries and associates	500	4,820	-	-	648	5,968
Investments in real estate	-	-	-	-	976	976
Overdraft accounts	44	184	5	-	343	576

Liabilities:

Due to banks and financial institutions	-	-	-	7,188	-	7,188
Current accounts and other deposits	3,292	12,148	720	-	31,491	47,651
Equity of unrestricted Investments and saving accounts' holders	157	1,853	51	-	13,104	15,165

Contingent liabilities and commitments

Letters of guarantee	-	1,597	-	-	-	1,597
Letters of credit	-	1,908	-	-	-	1,908

	YER Million				2022	
Assets:						
Cash on hand and reserve balances with CBY	-	-	-	28,995	-	28,995
Due from banks and financial institutions	-	-	-	30,082	-	30,082
Financing assets	26	2,107	61	-	523	2,717
Investments securities	525	-	91	126	-	742
Investments in subsidiaries and associates	500	648	-	-	4,789	5,937
Investments in real estate	-	-	-	-	976	976
Overdraft accounts	47	185	5	-	349	586

Liabilities:

Due to banks and financial institutions	-	-	-	4,150	-	4,150
Current accounts and other deposits	2,754	23,293	239	-	16,093	42,379
Equity of unrestricted Investments and saving accounts' holders	-	1,384	-	-	12,944	14,328

Contingent liabilities and commitments

Letters of guarantee	-	1,586	-	-	-	1,586
Letters of credit	-	824	-	-	994	1,818

39 Distribution of assets, liabilities, and contingent liabilities and commitments based on geographical locations

	Republic of Yemen	America	Europe	Asia	Africa	Total
	YER Million		2023			
Assets:						
Cash on hand and reserve balances with CBY	33,275	-	-	-	-	33,275
Due from banks and financial institutions	26,549	-	1,965	7,914	74	36,502
Financing assets	2,806	-	-	-	-	2,806
Investments securities	742	-	-	-	-	742
Investments in subsidiaries and associates	5,968	-	-	-	-	5,968
Investments in real estate	976	-	-	-	-	976
Overdraft accounts	576	-	-	-	-	576
Liabilities:						
Due to banks and financial institutions	7,188	-	-	-	-	7,188
Current accounts and other deposits	44,636	14	1,011	1,987	3	47,651
Equity of unrestricted Investments and saving accounts' holders	15,025	58	-	81	1	15,165
Contingent liabilities and commitments:						
Letters of guarantee	1,597	-	-	-	-	1,597
Letters of credit	1,908	-	-	-	-	1,908
YER Million		2022				
Assets:						
Cash on hand and reserve balances with CBY	28,995	-	-	-	-	28,995
Due from banks and financial institutions	17,721	-	1,458	10,823	80	30,082
Financing assets	2,717	-	-	-	-	2,717
Investments securities	742	-	-	-	-	742
Investments in subsidiaries and associates	5,937	-	-	-	-	5,937
Investments in real estate	976	-	-	-	-	976
Overdraft accounts	586	-	-	-	-	586
Liabilities:						
Due to banks and financial institutions	4,150	-	-	-	-	4,150
Current accounts and other deposits	41,901	2	328	145	3	42,379
Equity of unrestricted Investments and saving accounts' holders	14,179	57	-	91	1	14,328
Contingent liabilities and commitments:						
Letters of guarantee	1,586	-	-	-	-	1,586
Letters of credit	1,818	-	-	-	-	1,818

40. Significant foreign currencies' positions

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

	December 31, 2023		December 31, 2022	
	Surplus (Deficit)	% Of Capital & reserves	Surplus (Deficit)	% Of Capital & reserves
	YER 000s	YER 000s	YER 000s	YER 000s
USD	964,349	5.37%	1,598,696	10.80%
EURO	8,644	0.05%	(929)	-0.01%
Saudi Rial	(2,138,658)	-11.92%	(2,981,672)	-20.15%
Sterling Pound	(419)	0.00%	1,739	0.01%
Others	1,401,325	7.81%	1,641,147	11.09%
Net surplus	235,241	1.31%	258,981	1.75%

The USD exchange rate at December 31, 2023 was 250.25 YER (at December 31, 2022: USD exchange rate was 250.25 YER) according to CBY instructions.

41. Transactions with related parties

Parties are considered to be related if the party has the ability to control or exercise significant influence over the Bank in making financial or operating decisions.

Related parties are presented by the members of the Board Directors, executive management, and the companies owned by the shareholders and members of the Board of Directors. The Bank deals with related parties on the same basis applied to third parties in accordance with the Banks Law and Central Bank of Yemen instructions, included in circular No. 4 of 1999 which limits credit transactions with related parties. These transactions consist of Murabaha financing and other various transactions conducted as part of the Bank's normal activities.

The following are the balances of these transactions in the financial statements date:

	2023	2022
	YER Millions	YER Millions
Current accounts and other deposits	2,581	2,638
Murabaha financing transactions	574	639
Letters of guarantee	192	211
Letters of credit	0	0
Debit balances and other assets	21	25
Executive management salaries and benefits	566	591
Board of directors' bonuses and allowances	42	44

42. Tax status

Corporate and salaries taxes have been cleared up to the year 2022, except for the pending case with tax court concerning the additional assessment for foreign losses in 2017.

43. Zakat status

- The Bank submits its Zakat declarations annually and remits the amount due based on the declaration.
- Final settlement has been made with the General Authority of Zakat, and accrued zakat was paid until the end of the year 2017 according to the Zakat declaration.
- The Bank has paid Zakat for the year 2018 according to the Zakat declaration. Additional assessment notification was received by the Bank. However, the Bank objected to the additional assessment, and the case is still pending with court up to the date of issuing these financial statements.
- The Bank has paid Zakat for the year 2019 according to the Zakat declaration. Additional assessment notification was received by the Bank. However, the Bank filed an appeal to the committee of appeal against the additional assessment. The case is still pending with committee of appeal up to the date of issuing these financial statements.
- The Bank has paid Zakat for the year 2020 according to the Zakat declaration. Additional assessment notification was received by the Bank. However, the Bank objected to the additional assessment, and the case is still pending with court up to the date of issuing these financial statements.
- The bank has paid Zakat for the year 2021 and 2022 according to the Zakat declaration. Additional assessment notification was received by the Bank. However, the Bank filed an appeal to the committee of appeal against the additional assessment. The case is still pending with committee of appeal up to the date of issuing these financial statements.

44. 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 and make the necessary precautions to ensure continuity.

45. Authorization of financial statements

The financial statements for the year ended December 31, 2023 were approved by the board of directors on April 23, 2024, and decision was issued to present the financial statements to the General Assembly for approval.

46. Comparative Numbers

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