NATIONAL ISLAMIC BANK S.A.

FINANCIAL STATEMENTS

31 DECEMBER 2021

These financial statements have been translated from the original statutory financial statements that have been prepared in the Arabic language.
In the event that differences exist between this translation and the original Arabic language financial statements, the Arabic language financial statements will prevail over this document.

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Independent Auditor's Report
To the Shareholders of National Islamic Bank S.A.

Opinion
We have audited the accompanying financial statements of National Islamic Bank S.A. ("the Bank") which comprise the statement of financial position as at 31 December 2021, and statement of income, statement of cash flows, and statement of changes in equity for the period since inception till 31 December 2021, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2021 and its financial performance and its cash flows for the period then ended, in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"), Shari`ah rules and principles as determined by Shari`ah Supervisory Board of the Bank and International Financial Reporting Standards ("IFRS") for the matters not covered by AAOIFI standards in conformity with Shari`ah rules and principles and regulations of the Central Bank of Syria.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in "the Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants "IESBA Code" together with the ethical requirements that are relevant to our audit of the financial statements in Syria, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with Financial Accounting Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organization for Islamic Financial Institutions, Shari`ah rules and principles as determined by Shari`ah Supervisory Board of the Bank and International Financial Reporting Standards for the matters not covered by AAOIFI standards in conformity with Shari`ah rules and principles and regulations of the Central Bank of Syria, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Mohammad Makssour
Syrian Certified Accountant
5626/2009

Mohamad Makssour
Damascus, Syrian Arab Republic
13 April 2022

Statement of Financial Position
As at 31 December 2021

	Notes	31 December 2021
Assets		**SYP**
Cash and balances with the Central Bank of Syria	**4**	**24,979,334,754**
Property and equipment	**5**	**368,701,000**
Intangible assets	**6**	**4,448,752,000**
Right-of-use asset	**7**	**52,120,277**
Deferred tax asset	**8**	**1,824,548**
Total assets		**29,850,732,579**
Equity and liabilities		
Liabilities		
Ijarah liabilities	**7**	**31,418,470**
Due to suppliers	**9**	**4,087,024,000**
Due to shareholders (founders)	**11**	**758,435,641**
Total liabilities		**4,876,878,111**
Equity		
Paid-in capital	**10**	**25,000,000,000**
Accumulated losses		**(26,145,532)**
Total equity attributable to bank shareholders		**24,973,854,468**
Total liabilities and equity		**29,850,732,579**

The attached notes from (1) to (15) are an integral part of these financial statements

National Islamic Bank S.A.

Income Statement
For the period since inception till 31 December 2021

	Notes	For the period since inception till 31 December 2021
		SYP
Revenues		**-**
Total operating income		**-**
Establishment expenses	**12**	**(993,112,736)**
Amortization of right-of-use asset	**7**	**(7,016,244)**
General and administrative expenses	**13**	**(463,479,972)**
Expected credit losses	**4**	**(20,671,886)**
Total expenses		**(1,484,280,838)**
Loss before tax		**(1,484,280,838)**
Deferred income tax	**8**	**1,824,548**
Net loss		**(1,482,456,290)**
Loss per share	**14**	**(5.93)**

The attached notes from (1) to (15) are an integral part of these financial statements

Statement of Changes in Equity
For the period since inception till 31 December 2021

	Paid-in capital	Period losses	Accumulated losses	Total equity
	SYP	SYP	SYP	SYP
Shares subscription	25,000,000,000	-	-	25,000,000,000
Transaction costs	-	-	(146,530,615)	(146,530,615)
Loss for the period	-	(1,482,456,290)	-	(1,482,456,290)
Period losses allocation	-	26,145,532	(26,145,532)	-
Founders' waiver of part of the Benevolent loan (note 11)	-	1,456,310,758	146,530,615	1,602,841,373
31 December 2021	25,000,000,000	-	(26,145,532)	24,973,854,468

The attached notes from (1) to (15) are an integral part of these financial statements

National Islamic Bank S.A.

Statement of Cash Flows
For the period since inception till 31 December 2021

	Notes	For the period since inception till 31 December 2021
		SYP
<u>Cash Flows from Operating activities</u>		
Net loss before tax		**(1,484,280,838)**
Adjustments for non-cash items:		
Amortization of right-of-use asset	**7**	**7,016,244**
Expected credit losses	**4**	**20,671,886**
Net income before changes in operating assets and liabilities		**(1,456,592,708)**
Changes in operating assets and liabilities		
Right-of-use asset		**(59,136,521)**
Ijarah liabilities		**31,418,470**
Net cash flows used in operating activities		**(1,484,310,759)**
<u>Cash Flows from Investing Activities</u>		
Purchase of property and equipment		**(368,701,000)**
Purchase of intangible assets		**(361,728,000)**
Net cash flows used in investing activities		**(730,429,000)**
<u>Cash Flows from Financing Activities</u>		
Capital payments		**25,000,000,000**
Transaction costs		**(146,530,615)**
Benevolent loan from founders		**2,361,277,014**
Net cash flows from financing activities		**27,214,746,399**
Net changes in cash and cash equivalents during the period		**25,000,006,640**
Add		
Cash and cash equivalents at the beginning of the period		**-**
Cash and cash equivalents at the end of the period		**25,000,006,640**

During the year, the Bank purchased intangible assets of SYP 4,448,752,000 (SYP 361,728,000 of it was paid, and the remaining amount of SYP 4,087,024,000 is due to suppliers).

1. General Information

National Islamic Bank S.A. ("the Bank") is licensed as a Syrian public shareholding Company in accordance with the Prime Ministry decision No. (36/M.W) issued on 14 April 2021, the commercial register No. (19560) issued on 30 December 2021. The Bank is subject to the Islamic banks decree No. (35) for the year 2005; the private and joint banks law No. (28) for the year 2001 and its executive instructions; the Central Bank of Syria law No. (23) for the year 2002; the Commerce law No. (33) for the year 2007, Companies law No. (29) for 2011, and to the regulations stated by the Monetary and Credit Council in accordance with Shari`ah rules and principles.

The Bank was established with a total capital of SYP 25,000,000,000 representing 250,000,000 shares; with a par value of SYP 100 per share.
The Bank's headquarter is located in Mezzeh, Damascus– Syrian Arab Republic.

The objective of the Bank is to provide banking services and practice financing and investing activities based on a non-interest basis in all its forms, develop means of attracting funds and savings and directing them towards participating in productive investment using banking methods and means in accordance with Sharia's rules and principles.

The financial statements at 31 Dec 2021 were approved by the Board of Directors of the Bank on 29 March 2022.

Shari`ah Supervisory Board

Legislative Decree No. (35) of 2005 stipulates within Article / 10 / that the General Assembly of shareholders should appoint a Shari`ah Supervisory Board comprised of at least three members from scholars of jurisprudence, Shari`ah, and law, in its rullings are binding on the Islamic Bank, the Board shall:

- Monitor the business and activities of the Islamic bank in terms of their compliance with Shari`ah rules and principles.
- Express an opinion on the forms of the contracts needed for banking business and activities.
- Review any matters assigned to it by the Board of Directors or in line with the instructions of the Central Bank of Syria.

Shari`ah Supervisory Board members cannot be dismissed without the consent of the General Assembly and notifying Central Bank of Syria.
The Bank's management shall notify the Central Bank of Syria of the decision to appoint or dismiss, or to do any change in the composition of the Shari`ah Supervisory Board.

2. Basis of Preparation and Significant Accounting Policies

Basis of financial statements preparation

The financial statements of the Bank are prepared in accordance with the Financial Accounting Standards issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), International Financial Reporting Standards (IFRS), and Interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) for matters not covered by Financial Accounting Standards issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and in accordance with the local regulations and instructions issued by the Monetary and Credit Council, according to Shari`ah rules and principles.

The financial statements are prepared under the historical cost basis.
The financial statements are presented in Syrian pounds, which is the functional and presentation currency of the Bank.

New standards, amendments, and interpretations the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has issued new Financial Accounting Standards and amendments to existing Financial Accounting Standards, which are described below:

Standards issued by AAOIFI and not effective yet

- **Financial Accounting Standard (FAS 38) "Wa'ad, Khiyar and Tahawwut"**

  AAOIFI has issued FAS 38 "Wa'ad, Khiyar, and Tahawwut" in 2020. The objective of this standard is to prescribe the accounting and reporting principles for recognition, measurement, and disclosures in relation to Shari`ah compliant Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangement for Islamic financial institutions. This standard applies to accounting and financial reporting for all transactions involving Wa'ad, Khiyar, or Tahawwut arrangements carried out under Shari`ah rules and principles. This standard is effective for the financial statements beginning on or after 1 January 2022. Earlier application of the standard is permitted.

- **Financial Accounting Standard (FAS 39) "Financial Reporting for Zakah"**

  AAOIFI has issued FAS 39 "Financial Reporting for Zakah" in 2021. This standard improves upon and supersedes FAS 9 "Zakah". The objective of this standard is to establish the principles of financial reporting related to Zakah attributable to different stakeholders of an Islamic financial institution with regard to the recognition, presentation and disclosure. This standard is effective for the financial periods beginning on or after 1 January 2023. Early adoption is permitted.

- **Financial Accounting Standard (FAS 1) (Revised 2021) "General Presentation and Disclosures in the Financial Statements"**

  AAOIFI has issued FAS 1 (Revised) in 2021. This Standard improves the overall presentation and disclosures requirements prescribed in line with the global best practice, and supersedes the existing FAS 1. This standard sets out the overall requirements for presentation of financial statements, the minimum requirements for the contents of the financial statements and a recommended structure of financial statements that facilitate faithful presentation in line with Shari`ah rules and principles and comparability with the institution's financial statements of previous periods, and the financial statements of other institutions. This standard is effective for the financial statements periods beginning on or after 1 January 2023. Early adoption is permitted.

2. Basis of Preparation and Significant Accounting Policies (continued)

Standards issued by AAOIFI and not effective yet (continued)

- **Financial Accounting Standard (FAS 40) “Financial Reporting for Islamic Finance Windows”**

AAOIFI has issued FAS 40 in 2021. The objective of this standard is to establish financial reporting requirements for Islamic financial services offered by conventional financial institutions (in form of Islamic finance windows). This standard improves upon and supersedes FAS 18 “Islamic Financial Services Offered by Conventional Financial Institutions”. This standard is effective for the financial statements periods beginning on or after 1 January 2024. Early adoption is permitted.

Standards issued by AAOIFI and effective as of 1 January 2021

- **Financial Accounting Standard (FAS 31) “Investment Agency (Al-Wakala Bi Al-Istithmar) ”**

AAOIFI has issued FAS 31 in 2017. The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency (Al-Wakala Bi Al-Istithmar) instruments and the related assets and obligations, as applicaple, for the Islamic financial institutions from both perspectives i.e. The principal (investor) and the agent, regarding classification, initial recognition, subsequent measurement, presentation and disclosure, and other related matters.

- **Investment agency for the principal (investor):**

At the inception of the transaction, the Bank as “principal/investor” evaluates the nature of investment as either a pass-through investment, or a Wakala venture.

- **Pass-through investment:**

A pass-through investment is an investment in which the involvement of the agent, as well as, the options for transferability of the instrument are limited and the investor principally takes a direct exposure to the underlying assets. On initial recognition, the asset underlying the Wakala arrangement is recognized applying the initial recognition principles as applicable in line with respective FAS.

- **Wakala venture:**

The Bank chooses to apply Wakala venture for transferable instruments or the investment made in a single asset (or pool of assets) where such asset(s) are subject to frequent changes throughout the term of the contract i.e. there are routine changes or replacements over the term of arrangement (unless it constitutes a business) at the discretion of the agent; or the role of the agent is not limited whereby the agent performs day-to-day asset management function and, where applicable, is also responsible for replacement of assets or recoveries against them. On initial recognition, the Bank initially recognizes the investment made as an investment in Wakala venture at cost. Subsequent measurement at the end of a financial period is at carrying amount adjusted to include the investor’s share in the profit or loss of the Wakala venture, net of any agent’s remuneration and impairment (equity method of accounting).

- **Investment agency for the agent:**

The Bank recognizes agency arrangement under off-balance sheet approach since the agent doesn’t control the related assets and hence doesn’t record the assets and related income and expenditure in its books of account.

The Bank does not have any agencies (either as an agent or as a principal) as of 31 December 2021.

2. Basis of Preparation and Significant Accounting Policies (continued)

Standards issued by AAOIFI and effective as of 1 January 2021 (continued)

- Financial Accounting Standard (FAS 32) "Ijarah"

AAOIFI has issued the Financial Accounting Standard FAS 32 in 2019. The objective of this standard is to set out principles of accounting and financial reporting for Ijarah transactions entered into by the Islamic financial institutions (IFIs). This standard supersedes the earlier FAS 8 "Ijarah and Ijarah Muntahia Bittamleek". The standard brings significant changes from its predecessor standard (FAS 8), in classification, recognition and measurement principles, and presentation and disclosure.
This standard applies for accounting and financial reporting for a lessor or lessee, for all Ijarah (asset Ijarah, including Ijarah Muntahia Bittamleek (Ijarah MBT)) transactions, except for accounting of Sukuk based on Ijarah, Ijarah transactions for exploration and extraction of natural resource, and service Ijarah transactions. The Bank has applied FAS 32 as of the date of the Bank inception by the First General Assembly on 30 November 2021, where the right-of-use assets and Ijarah liabilities were recorded.

- Financial Accounting Standard (FAS 35) "Risk Reserves"

AAOIFI has issued the Financial Accounting Standard FAS 35 in 2018. The objective of this standard is to establish the principles of accounting and financial reporting for risk reserves, this standard does not mandatorily require the Islamic Financial Institutions (IFIs) to maintain risk reserves. If an IFI established such reserves, it shall apply this standard in its entirety.
This standard encourages IFIs to establish adequate risk reserves to mitigate the credit, market, equity investment, liquidity, rate of return, or displaced commercial risks faced by stakeholders (mainly the profit and loss taking investors).

Significant Accounting Polices

Impairment

The Bank applies three-stage approach to measure expected credit loss on financial assets carried at amortized cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: Twelve-month ECL

Stage 1 includes credit exposures where there has not been a significant increase in credit risk since initial recognition. Expected credit losses is recognized on a twelve-month basis (the portion of lifetime ECL that represents the expected credit losses that result from potential default events on financial contracts within 12 months after the financial reporting date (or a shorter period if the expected life of the financial instrument is less than 12 months).

Stage 2: Lifetime ECL – not credit impaired

Stage 2 includes credit exposures where there has been a significant increase in credit risk since initial recognition, but that are not credit impaired. A lifetime ECL is recognized (the loss that results from all possible default events over the expected life of the financial contract).
Lifetime ECL (Stage 2) is a probability-weighted estimate of the expected credit losses over the lifetime of the exposure since the measurement date and is determined based on the difference between the present value of all cash shortfalls (the cash shortfall is the difference between all contractual cash flows that are due to the Bank and the present value of the recoverable amount for those financial assets that are not credit-impaired at the reporting date).

2. Basis of Preparation and Significant Accounting Policies (continued)

Significant Accounting Polices (continued)

Impairment (continued)

Stage 3: Lifetime ECL - credit impaired

Stage 3 includes credit-impaired exposures, and that happens when one or more events that have a detrimental impact on the estimated future cash flows of those assets have occurred.
Provisions for credit impairment (stage 3) are determined based on the difference between the net carrying amount and the recoverable amount of the exposure.

Credit impaired financial assets

At the reporting date, the Bank assesses whether financial assets carried at amortized cost are credit-impaired. Indicators of credit impairment include:

- Significant financial difficulty of the borrower or issuer;
- A breach of contracts such as a default or past due event; or
- Probability that the borrower will enter bankruptcy or other financial reorganization.

Expected credit loss measurement

Key inputs in ECL measurement are:

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure At Default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data, taking into account the recommended ratios for bank exposures according to Basel and Central Bank of Syria instructions, and adjusted to reflect forward looking information.

Significant increase in credit risk

When determining the significant increase in the credit risk of financial contracts since initial recognition, the Bank considers reasonable, relevant and supportable information available without undue cost and effort. This includes both quantitative and qualitative information, based on the Bank's historical experiences, and expert credit assessment, including forward looking information.

Transactions and balances in foreign currencies

Transactions in foreign currencies are initially recorded by Bank at its respective functional currency spot rates at the date of the transaction first qualifies for recognition.
Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.
Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

2. Basis of Preparation and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Ijarah

At inception of a contract, the Bank assesses whether the contract is, or contains an Ijarah. A contract is or contains an Ijarah if the contract transfers the usufruct (but not control) of an identified asset for a period of time in exchange for an agreed consideration. The Bank reassesses, whether a contract is, or contains, an Ijarah only if the terms and conditions of the contract are changed.

The Bank as a lessee

Initial recognition

Any rentals paid in advance by the Bank prior to the commencement date is accounted for and presented as advance Ijarah rentals paid. Once the Ijarah term is commenced, and the gross Ijarah liability and net Ijarah liability are determined, such advance rentals are netted-off with the gross Ijarah liability, as, at the commencement date of the contract, the Bank recognizes:

- A right-of-use (usufruct) asset; and
- A net Ijarah liability, comprising of the following elements:
  - Gross Ijarah liability (gross amount of Ijarah rental payable)).
  - Deferred Ijarah cost (the difference between the gross Ijarah liability and the prime cost of right-of-use asset).
- The cost of the right-of-use asset comprises the prime cost of the right-of-use asset plus any initial direct costs incurred by the Bank plus the costs of dismantling or decommissioning.
- The Ijarah liability comprises fixed Ijarah rentals (less any incentives receivable) and variable Ijarah rentals and (if any), for terminating the Ijarah.

Subsequent measurement

After the commencement date, the right-of-use asset is measured at the cost less any accumulated amortization and any accumulated impairment losses plus the adjustment for any effect of Ijarah modification or reassessment.

The Bank amortizes the right-of-use asset from the commencement date to the end of the useful economic life of the right-of-use asset according to a straight-line method.

After the commencement date, the net Ijarah liability is measured by:

- Reducing the carrying amount of the gross Ijarah liability to reflect the Ijarah rentals made;
- Increasing the net carrying amount to reflect return on the Ijarah liability – by way of amortization of deferred Ijarah cost; and
- Re-measuring the carrying amount to reflect any reassessment, changes, or Ijarah contract modifications.

2. Basis of Preparation and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Ijarah (continued)

The Bank as a lessor

Assets acquired for Ijarah and Ijarah Muntahia Bittamleek are measured upon acquisition at cost (comprises all costs of purchase and other costs incurred in bringing asset to its present location and condition).
Assets acquired for Ijarah and Ijarah Muntahia Bittamleek are measured subsequent to initial recognition at cost less accumulated depreciation less accumulated impairment, if any.
The depreciation of the underlying asset is charged to income over its useful economic life on a pattern that is reflective of the expected pattern of economic benefits arising from it.
Ijarah revenue is recognized in the income statement on an accrual basis, applying a straight-line basis.
Ijarah costs, incurred in earning the Ijarah revenue are recognized as an expense in the income statement. These include:

- depreciation of the underlying asset;
- amortization of the initial direct cost; and
- other costs incidental to ownership of underlying asset e.g. major repair and maintenance (other than operational repair and maintenance), Takaful and taxes, etc.

Derecognition of financial assets and liabilities

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire; or it transfers the rights to receive the contractual cash flows in a transaction in which either substantially all of the risks and rewards of ownership of the financial asset are transferred; or the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

When assets recognised in the Bank statement of financial position are transferred, however, the Bank retains either all or substantially all of the risks and rewards of the transferred assets, in these cases, the transferred assets are not derecognised.

When assets recognised in the Bank statement of financial position are transferred, however, the Bank retains either all or substantially all of the risks and rewards of the transferred assets, in these cases, the transferred assets are not derecognised. In some transactions, the Bank retains the right to service the financial asset for a fee, in this case it recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the Bank adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

Financial liabilities

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

2. Basis of Preparation and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Property and equipment

Property and equipment are initially recognized at cost plus other direct costs, and later on measured at cost less accumulated depreciation and accumulated impairment losses (if any). Purchased software that is considered an integral part of the related equipment, is capitalized as part of that equipment. If significant parts of an item of property and equipment have different useful live, they are accounted for as separate items (major components) of property and equipment.

Gains or losses on disposal of an item of property and equipment are recognized within other income in profit and loss.

Subsequent expenditures are capitalized only if it is probable that future benefits will be associated with the expenditures flow to the Bank. All other repair and maintenance costs are recognized in profit and loss as incurred.

Depreciation is calculated to write off the cost of items of property and equipment (less estimated residual values) using the straight-line method over their estimated useful lives and it is generally recognized in profit and loss (Land is not depreciated) using the following percentages:

Buildings	2%
Equipment, fixtures, and computers	20%
Office equipment	15%
Leasehold improvements	15% or rental periods whichever is less
Motor vehicles	20%

Intangible assets

Computer software acquired by the Bank is measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditures are capitalized only if they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit and loss as soon as they are incurred.

Software is amortized using the straight-line method over its estimated useful life and amortization is recognized in the profit and loss, from the date on which it is available for use. The estimated percentage of amortization of intangible assets is 20%.

Amortization methods, useful life, and residual value of the asset are reviewed at each reporting date and adjusted if appropriate.

An impairment loss is recognized if the carrying amount of the asset exceeds the recoverable amount, and the impairment loss is recorded in profit and loss.

Provisions

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

2. Basis of Preparation and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Income tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years.

The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainly related to income taxes, if any. Tax is calculated using the tax rates as per the laws and regulations in the country

Capital

- Cost of issuing Bank shares

Any cost resulting from issuing or acquiring shares is recorded within equity. If shares issuing or acquiring process is not completed, costs are recorded as expenses in the income statement.

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position, if and only if, there is a legal enforceable right to offset the recognized amounts and the Bank intends to either settle on a net basis or to realize the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents represent cash and bank balances maturing originally within three months (original maturities are three months or less) and comprise cash and balances with the Central Bank of Syria, balances with banks, excluding cash balances due to banks with original maturity of three months or less and restricted balances.

3. Significant Accounting Estimates

In applying the Bank's accounting policies, management is required to make judgments, estimates, and assumptions that affect the carrying amounts of revenues, expenses, assets, liabilities and disclosures that are not readily apparent from other sources. The Bank's estimates and assumptions are based on past experience and other factors, and actual results may differ from these estimates.
Estimates are reviewed on an ongoing basis, and revisions to estimates are recognized prospectively.

Going Concern

The Bank’s management has made an assessment of the Bank’s ability to continue as a going concern, and despite the current instability that the Syrian Arab Republic is experiencing and the inherently uncertain future outcomes of these events, the Bank’s management is satisfied that the Bank has enough resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material matters that may cast significant doubt about the Bank's ability to continue as a going concern. Therefore, the financial statements were prepared on a going concern basis.

3. Significant Accounting Estimates (continued)

Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be used. Judgments are required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits, together with future tax-planning strategies.

Expected Credit Losses

Determining the expected credit losses by the Bank management requires using a significant judgment to estimate the amount and timing of future cash flows and the assessment of a significant increase in credit risk of financial assets after initial recognition and future measurement information of the expected credit losses.

The Bank classifies exposures towards other parties as sovereign exposures, exposures to financial institutions and correspondent banks, and credit facilities exposures, and adopts a methodology of managing these exposures, within the three stages, and computing the expected credit losses for them.

The Bank classifies exposures into three stages:

Stage 1: Twelve-month ECL

Stage 1 includes the financial assets on initial recognition and whose credit risk has not increased significantly since initial recognition.

Stage 2: Lifetime ECL - not credit impaired

Stage 2 includes the financial assets whose credit risk has increased significantly since initial recognition without objective evidence of impairment. To determine the significant increase in credit risk for the Bank exposures, the Bank states a number of quantitative and qualitative indicators such as the decrease in the credit rating, a significant decrease in income and future cash flows, and more than 30 days past due.

Stage 3: Lifetime ECL – credit impaired

Stage 3 includes the financial assets for which there is objective evidence of impairment at the date of the statement of financial position. The Bank states a number of quantitative and qualitative indicators to determine the impaired financial assets such as delay in settlement (more than 90 days past due).

- **Methodology for calculating expected credit losses**

Expected credit losses reflect the amounts that the Bank does not expect to collect, and are measured quarterly. The methodology for calculating ECL is based on the following parameters:

- Probability of Default (PD)
- Loss Given Default (LGD)
- Exposure at Default (EAD)

3. Significant Accounting Estimates (continued)

Expected Credit Losses (continued)

- **Probability of Default (PD)**

The Bank estimates the probability of default for credit facilities on a specific date using statistical models. These models are mainly based on historical internal data that includes quantitative and qualitative factors and are processed to be forward-looking.
The credit risk associated with the lifetime of credit exposures is reflected by addressing the probability of default based on the remaining period to maturity of the exposure to be either for 12 months from the measurement date or for the expected lifetime of the credit exposure from the measurement date, depending on the stage in which the exposure is classified:

Stage 1 exposures: the probability of default is calculated for up to 12 months, except for the exposures that have a remaining lifetime less than 12 months, for which the probability of default is calculated for the remaining lifetime of the exposure.

Stage 2 exposures: the probability of default is calculated for the remaining lifetime of the exposure.

Stage 3 exposures: the probability of default is 100%.

- **Loss Given Default (LGD)**

Amount of losses that will arise in the event of default.
The Bank uses the recommended ratios according to the directions of Central Bank of Syria.

- **Exposure at Default (EAD)**

The value of the exposure at default represents the expected exposures in the event of default. EAD is estimated at the book value as at the measurement date, taking into account all cash flows expected to be used by the customer before the date of default for the exposures classified in Stage 1 and Stage 2, while the Exposure at Default for the exposures classified in Stage 3 is estimated at the book value as at the measurement date less suspended profits.

4. Cash and balances with the Central Bank of Syria

According to the executive instructions of the Private Banks Law No. 28 for 2001, the value of the Bank's capital contributions is paid in accounts with the Central Bank of Syria.

	31 December 2021
	SYP
Current accounts (*)	**25,000,006,640**
Less: expected credit losses provision (**)	**(20,671,886)**
	24,979,334,754

(*) Capital contributions in Syrian Pounds and US dollars. Accounts are deposited at the Central Bank of Syria until the Bank is listed in the Syrian banks record at the Central Bank of Syria.

(**) Following is the movement of expected credit losses for balances with Central Bank of Syria:

	31 December 2021			
	Stage 1	Stage 2	Stage 3	Total
	SYP	SYP	SYP	SYP
Beginning balance	-	-	-	-
Expected credit losses expense	20,671,886	-	-	20,671,886
At 31 December 2021	20,671,886	-	-	20,671,886

5. Property and equipment

	Tools and equipments	Motor vehicles	Total
	SYP	**SYP**	**SYP**
Cost			
Beginning balance	-	-	-
Additions	317,701,000	51,000,000	368,701,000
Balance as at 31 December 2021	**317,701,000**	**51,000,000**	**368,701,000**
Accumulated depreciation:			
Beginning balance	-	-	-
Additions	-	-	-
Balance as at 31 December 2021	-	-	-
Net book value as at 31 December 2021	**317,701,000**	**51,000,000**	**368,701,000**

6. Intangible assets

	Computer software	Total
	SYP	**SYP**
Cost		
Beginning balance	-	-
Additions	4,448,752,000	4,448,752,000
Balance as at 31 December 2021	**4,448,752,000**	**4,448,752,000**
Accumulated depreciation:		
Beginning balance	-	-
Additions	-	-
Balance as at 31 December 2021	-	-
Net book value as at 31 December	**4,448,752,000**	**4,448,752,000**

7. Right-of-use asset/ Ijarah liabilities

	Right-of-use asset	
	Buildings	**Total**
	SYP	**SYP**
Cost		
Beginning balance	-	-
Additions	59,136,521	59,136,521
Balance as at 31 December 2021	**59,136,521**	**59,136,521**
Accumulated amortization:		
Beginning balance	-	-
Additions	7,016,244	7,016,244
Balance as at 31 December 2021	**7,016,244**	**7,016,244**
Net book value as at 31 December 2021	**52,120,277**	**52,120,277**

	Ijarah liabilities	
	Buildings	**Total**
	SYP	**SYP**
Cost		
Beginning balance	-	-
Additions	**31,136,521**	**31,136,521**
Ijarah cost	281,949	281,949
Payments during the period	-	-
Balance as at 31 December 2021	**31,418,470**	**31,418,470**

8. Deferred tax asset/deferred income tax revenue

The amount of deferred income tax assets and deferred income tax revenue is calculated as follows:

	31 December 2021
	SYP
Beginning balance	**-**
Add: deferred income tax revenue (*)	**1,824,548**
	1,824,548

(*) The deferred income tax revenue arising from the period loss has been calculated as follows:

	31 December 2021
	SYP
Net loss before tax	**(1,484,280,838)**
Adjustments:	
Transaction costs	(146,530,615)
Expected credit losses	20,671,886
Founders waiver of part of the Benevolent loan	1,602,841,373
Tax loss	**(7,298,194)**
Tax rate	25%
Deferred income tax revenue	**1,824,548**

9. Due to suppliers

	31 December 2021
	SYP
Due to the banking system suppliers	3,014,400,000
Due to technical services license suppliers	1,072,624,000
	4,087,024,000

10. Paid-in capital

The Bank authorized, subscribed and paid-in capital as at 31 December 2021 is 25,000,000,000 Syrian Pounds divided into 250,000,000 shares with a par value of SYP 100 per share. All of the Bank's ordinary shares are divided into three categories:

- (Category A): these are the shares that shall be owned by Syrian individuals or Syrian entities and are paid in Syrian pounds, except for non-resident Syrian individuals who shall pay the value of shares in foreign currency in accordance with the instructions and resolutions issued by relevant authorities, especially the Central Bank of Syria and the Monetary and Credit Council for this purpose.
- (Category B): these are the shares that can be owned by foreign individuals or entities (Arabs or foreigners), based on a decision of the Council of Ministers. The value of these shares shall be paid in foreign currencies in accordance with the instructions and resolutions issued by relevant authorities, especially the Central Bank of Syria and the Monetary and Credit Council for this purpose.
- (Category C): these are the shares owned by banking public sector.

The founders paid 75% of the Bank's capital, according to the following table:

Founder name	Nationality	Class	Rate (% of capital)	Shares number
New Generation S.A.L Holding	Lebanese	B	49%	122,500,000
Investment Company for Transportation and Logistics Solutions L.L.C	Syrian	A	%1	2,500,000
Industrial Bank	Syrian	C	%10	25,000,000
Imad Hanna Bin Hanna	Syrian	A	%4	10,000,000
Rasein Martini bin Muhammad Radwan	Syrian	A	%3	7,500,000
Mustafa Ghazal Hamwi bin Muhammad	Syrian	A	%4	10,000,000
Imad Al-Din Ghosn Bin Hussein	Syrian	A	%4	10,000,000
			%75	**187,500,000**

The remaining 25% of the shares were issued for public offering and the full par value of the shares was subscribed to, and paid.

11. Related party transactions

Related party transactions include transactions with members of the Board of Directors, executive management, or companies in which they own major shares, or any other parties that have a significant influence over the Bank's financial or operational decision-making process.

The balances at the end of the year with these parties included in the financial statements were as follows:

	31 December 2021	
	SYP	
	Board of Directors	Founders
Balance sheet items		
Credit balances	-	**758,435,641**
Income statement items		
Key management personnel compensation	-	-

Some of the founders of the Bank granted the Bank a Benevolent loan during the Bank's establishment period and after inception, in order to facilitate settling due payments during the period. Founders waived part of the amount of the Benevolent loan, and the value of this waiver amounted to SYP 1,602,841,373.

12. Establishment expenses

Establishment expenses until the date of the First General Assembly on 30 November 2021 amounted to SYP 1,139,643,351, including costs of issuing shares of SYP 146,530,615 and other establishment expenses that amounted to SYP 993,112,736. The First General Assembly approved the establishment expenses.

13. General and administrative expenses

	For the period since inception till 31 December 2021
	SYP
Administrative and technical consulting	**346,900,000**
Advertising expenses	**84,140,023**
Office expenses	**7,158,000**
Training expenses	**25,000,000**
Ijarah cost liabilities	**281,949**
	463,479,972

14. Loss per share

loss per share is calculated by dividing the loss for the period by the weighted average number of ordinary shares outstanding during the period as follows:

	For the period since inception till 31 December 2021
	SYP
Net loss for the period	1,482,456,290
Weighted average number of shares outstanding during the period	250,000,000
	5.93

15. Risk management

Introduction

Risk management is an ongoing process of identifying and measuring various risks that the Bank might be exposed to while performing its various activities, such as credit risks, market risks, liquidity risks, and operational risks, and to work on identifying methods and setting rules and control procedures to mitigate the effects of these risks and control them within acceptable limits and determine responsibilities to deal with them, and guarantee ongoing operations to ensure keeping adequate level of capital and liquidity based on limits set by the Central Bank of Syria, and in compliance with Shari`ah rules and principles, and submitting periodic and immediate exceptions reports to the concerned parties.

Responsibilities for the risk management process:

A. Board of Directors Responsibilities:

- Forming a Risk Management Committee that emerges of the Board of Directors and is compromised of three non-executive members of the Board, in accordance with the governance requirements.
- Forming an independent unit for risk management on the Bank’s organizational structure that is completely independent from the bank’s risk involving activities and operations.
- Approving the recommendations of the Risk Committee to adopt, update and amend the proposed risk management policy within the strategic directions, and evaluating its effectiveness in facing the various types of risks that the Bank may be exposed to, and reviewing it periodically or upon amending.
- Approving all policies and procedures related to risk management.
- Reviewing the Risk Committee minutes, its decisions and recommendations, and taking the appropriate decisions in this regard.
- Reviewing the reports submitted by the Risk Management Department to the Board Risk Committee and take appropriate decisions in this regard.
- Ensuring that the Bank's strategic plan is in line with the acceptable risk limits approved by the Board of Directors based on the recommendation of the Risk Management Committee.

B. Risk Management Committee Responsibilities:

- Designing and defining risk management policies, strategies, and procedures related to the current activities of the Bank and submitting them to the Board of Directors to be approved, adopted, and reviewed periodically, and to verify adherence to them.
- Reviewing the organizational structure of Risk Management and recommending it to be adopted by the Board of Directors.
- Holding periodic meetings to discuss, assess risks and how to deal with them and make recommendations thereon.
- Examining and reviewing periodic reports of different risks types prepared by the Risk Management and expressing an opinion thereon, then submitting them to the Board of Directors for examination and recommendation.
- Monitoring the extent of Risk Management adherence to the risk management criteria issued by the Central Bank of Syria related to managing credit risk, market risk, operational risk, equity investment risk, and any significant risks, in a manner that does not oppose to the Shari`ah rules and principles.
- Evaluating the initial warning indicators for all types of risks and setting procedures to provide the necessary coverage for them.

15. Risk management (continued)

B. Risk Management Committee Responsibilities (continued)

- Approving setting emergency plans and crisis management plans in coordination with the Chief Executive Officer and approval of Board of Directors.
- Periodic evaluation of policies and procedures set to manage all kinds of risks and set the necessary improvements annually or when needed.

C. Responsibilities of Executive Management:

- Creating the appropriately independent and sufficient infrastructure to manage risk and provide necessary technological systems that guarantee the continuity of risk management work and equip administrations with competent employees.
- Setting work policies and procedures that clearly define responsibilities and authorities, ensuring the segregation of tasks and authorities to avoid conflict of interest between departments.
- Activating the internal control system and identifying the administrative communication channels required to face various risks.
- Performing business activities within the risk strategy adopted by the Board of Directors and in accordance with the specified ceilings.

D. Risk Management Responsibilities:

- Proposing, reviewing and developing strategy, policies, and work procedures for the Risk Management department in the Bank for managing all kinds of risks (operational and information security risks, market and liquidity risks, financing risks, and any other risks), in accordance with the legislation and resolutions related to risk management issued by the Central Bank of Syria and the Monetary and Credit Council and approved by the Board of Directors, and working on implementing these procedures and policy.
- Examining, identifying, and evaluating all types of risks that the Bank is exposed to that are related to credit risks and expressing an opinion on credit granting recommendations.
- Monitoring the activities practiced by the Bank that are related to managing market and liquidity risks and comparing their limits, controls, and ceilings with what is specified in the instructions of the Central Bank of Syria and the Monetary and Credit Council and with the limitations, controls, and ceilings mentioned in the Bank’s investment policy.
- Taking the necessary measures to implement a self-assessment method for operational risks in the Bank's work centers, ensuring that the level of these risks remains within acceptable limits, and providing recommendation to the Chief Executive Officer and the Risk Committee to carry out the necessary treatment to mitigate the effects of the occurrence of these operational risks.
- Monitoring the progress of capital adequacy ratio to ensure compliance with the requirements of Basel II and the instructions of the Central Bank of Syria.
- Preparing periodic reports related to the management's work and submitting them to the Risk Committee.
- Following up on the implementation of the decisions issued by the Bank's Risk Committee, and monitoring the compliance of all work centers with these decisions.

15. Risk management (continued)

D. Risk Management Responsibilities (continued)

- Raising appropriate recommendations aiming to mitigate some operational risks and coordinating with the concerned work centers at the Bank to assess the possibility of transferring some risks that the Bank may be exposed to (insurance companies, safeguarding companies).
- Reviewing periodic reports related to the credit portfolio and making sure that the necessary provisions are recorded in compliance with the requirements of the Central Bank of Syria and the directions of the Board of Directors.
- Calculating expected credit losses for all types of exposures within the instructions of Central Bank of Syria for the adoption of International Financial Reporting Standard IFRS 9 and the Financial Accounting Standard FAS 30.

Internal Audit Department:

- Verifying the extent of compliance with the regulations stated in the general policy for risk management and procedures manual.
- Ensuring the availability of the necessary infrastructure for risk management and ensuring the independence of this department.
- Assessing the adequacy and effectiveness of risk identification systems and their measurement mechanisms, evaluating the effectiveness and adequacy of internal control systems and control procedures set to control the identified risks, in addition to evaluating the rapidity of reporting deviations and corrective actions taken.

Strategic objectives of Risk Management

- The main objective of the Bank's Risk Management Department is to provide a safe business environment that works on reaching the Bank's strategic objectives, by achieving a set of objectives to ensure a sound process for managing the Bank's risks.
- Preparing and updating important risk management policies that include the acceptable level of risk and risk management strategies.
- Following up on the commitment of the parties related to risk management to implement their specific tasks as identified in the corporate governance of risk management contained in the risk management policies.
- Spreading the risk management education to all the different administrative levels in the Bank.
- Analyzing the operations implemented in the Bank and ensuring that the necessary control procedures are identified in proportion to the acceptable level of risks, risks types, and risks magnitude.
- Monitoring all risks that the Bank may be exposed to continuously, and preparing the risk structure according to the type of risks and their importance.
- Participating in preparing the Bank's strategic plan by determining the acceptable level of risks.
- Setting an effective risk management reporting system that complies with the requirements of Basel Committee on Banking Supervision standard "Principles for effective risk data aggregation and risk reporting."

15. Risk management (continued)

Strategic objectives of Risk Management (continued)

- Adopting International Financial Reporting Standard IFRS 9 and Financial Accounting Standard FAS 30 in line with the instructions of the Central Bank of Syria.
- Maintaining an adequate level of capital by adhering to the minimum capital adequacy ratio in accordance with the instructions of the Central Bank of Syria, while maintaining additional margins of high and good quality capital capable of absorbing losses.
- Ensuring the readiness of the alternative site of the Bank (disaster recovery site) in addition to other alternative sites.

Risk Management Policies:

- An appropriate liquidity management policy has been adopted to ensure maintaining the Bank's financial strength and facing emergencies, including methods for monitoring and controlling liquidity risks.
- A policy has been adopted to manage operational risks resulting from the various activities and operations of the Bank, including methods of identifying and assessing operational risks, determining their main financial and statistical indicators, and tools of measuring these risks using the methods specified in the Basel Accord and in accordance with the instructions of the Central Bank of Syria.
- An appropriate policy has been adopted to manage investment and financing risks, the procedures of credit studying and granting and its concentrations have been developed, as well as identifying and following up on its risks and ensuring compliance with them. In addition to developing a sound methodology and accurate measures of credit risk, good investment, and the methods of measuring these risks through the internal rating of credit exposures.
- An appropriate market risk management policy has been adopted, including periodic review of market risks and the tools of measuring these risks using the methods specified in Basel Accord.

Credit Risk:

Credit risk is the risk resulting from the possibility of the Bank’s customer failure to fulfill their obligations towards the Bank, when these obligations become due or after then, or failure to pay according to the agreed terms, represented in the case of non-settlement of the debt (Murabaha), non-delivery of the asset (Salam), or the partner’s failure to deliver the Bank’s share of capital and profit (Mudarabah / Musharaka).

Credit Risk Policy:

- Determining investing and financing risks that the Bank may be exposed to.
- Studying the Bank credit and investment portfolio and monitoring the concentration of risks therein.
- Reviewing the levels of investing and financing risks mitigations and ensuring their adequacy, their abidance, and their implementation by the concerned authorities when determining the conditions of granting finance or investing.
- Determining the risk rating according to the internal rating system applied in the Bank for the credit granting applicant, by studying the recommendations of credit granting.
- Ensuring compliance with all specified ceilings as risk mitigators.

15. Risk management (continued)

Credit Risk Policy (continued)

- Ensuring that the credit granting criteria are sound and well defined. These criteria should include a clear indication to the targeted market of the Bank and the comprehensive understanding of the borrower or counterparty, as well as the purpose and structure of the credit and the source of its settlement.
- Usage of information systems and analytical techniques to measure the credit risk inherent in all items on and off balance sheet. Usage of administrative information systems that provide sufficient information on the composition of the credit portfolio, including the identification of the risk concentrations.
- Ensuring that the credit-granting function works properly and that credit exposures are within prudential levels that are consistent with internal standards and limits, and reporting exceptions from policies, procedures, and limits promptly to the appropriate level of management.

Risk concentrations

Concentrations arise when a group of correspondents or customers do similar business, do business within the same geographic environment, or have similar economic conditions that may affect the ability of correspondents or customers to meet their contractual obligations and that may be affected by the same economic, and political changes and other circumstances. Concentrations indicate the Bank's sensitivity towards a particular economic or geographical sector.

Market risk

Market risk is the risk of the losses in investing centers on and off-balance sheet, which arise from market prices movement, i.e. fluctuations in the value of tradable or leasable assets (including Sukuk), and off balance sheet investment portfolios (for example, restricted investment accounts).

The risks are related to the current and future fluctuations in the market values of specific assets, (for example, the price of an asset subject to a Salam contract, the market value of Sukuk, and the market value of Murabaha assets that were purchased and will be delivered over a specified period of time), moreover, the risks of fluctuations are linked to currency exchange rates as well.

Market risk policy

- Diversification of investments and their distribution over several sectors and geographical areas.
- Analysing investment returns trends and future exchange rates and investing in accordance with these studies.
- Setting investing limits on the level of country, currency, market, instrument, and counterparty.
- Alignment of currency positions in accordance with the instructions of the Central Bank of Syria.
- Studying and analyzing the risks associated with new investments and clarifying them through a detailed analytical memo before investing.

15. Risk management (continued)

Market risk policy (continued)

- Managing return rates gaps and cost of assets and liabilities according to multiple maturities to mitigate the risk of return rate, which is defined as a decrease in rate of return on investments compared to the local market, which arises due to the high return rate “interest” in the local market and the Bank’s inability to increase the rate of return of granted credits that have fixed rate of return (such as Murabaha).

Foreign currencies exchange rate fluctuation risk

The risk resulting from the change in the value of the financial instruments, as a result of changes in foreign currencies exchange rates.
The Bank is a Syrian institution where the Syrian Pound is the functional currency of the Bank. The concentration in each currency is monitored on daily basis to ensure that it remains at a reasonable level in accordance with the resolution of the Monetary and Credit Council No. 362/Mn/B1 dated 4 February 2008, and its amendments, especially Resolution 1409/Mn/B4 dated 24 July 2016.

The Bank does not use derivatives, such as forward foreign exchange contracts, or foreign currency swap contracts, and does not commence any hedging transactions that conflict with Shari`ah rules and principles.

The Bank prepares a sensitivity analysis to monitor the impact of changes on net profits and losses in the event of a reasonable change in the exchange rates with the rest of the variables staying unchanged. The negative amount in the following table represents the expected net decrease in the income statement or changes in equity while the positive amount represents the expected net increase.

15. Risk management (continued)

Foreign currencies exchange rate fluctuation risk (continued)

Currencies exchange rate risk of an increase or decrease in the currency exchange rate of 10%

Effect of increase by 10%

	31 December 2021		
	Syrian Pounds		
Currency	Foreign currency position	Effect on profit and loss before tax	Effect on Equity
Dollars	7,801,248,000	780,124,800	891,343,766

Effect of decrease by 10%

	31 December 2021		
	Syrian Pounds		
Currency	Foreign currency position	Effect on profit and loss before tax	Effect on Equity
US Dollar	7,801,248,000	(780,124,800)	(891,343,766)

	31 December 2021	
(Original currency translated into Syrian Pounds)	USD	Total
Assets	SYP	SYP
Cash and balances with Central Bank of Syria	12,250,006,640	12,250,006,640
Total assets	**12,250,006,640**	**12,250,006,640**
Liabilities and Shareholders' Equity		
Due to suppliers	4,087,024,000	4,087,024,000
Due to shareholders (founders)	361,734,640	361,734,640
Total Liabilities	**4,448,758,640**	**4,448,758,640**
Shareholders' Equity	-	-
Total Liabilities and Shareholders' Equity	**4,448,758,640**	**4,448,758,640**
Net currency position	**7,801,248,000**	**7,801,248,000**

15. Risk management (continued)

Liquidity risk

The risks related to the Bank's inability to meet its usual obligations or the failure to meet the required liquidity requirements within the specified ratio stated by the Central Bank of Syria, or its inability to fund increases in assets without having to liquidate assets in unfair prices, resorting to costly sources of funds, or those resulting from the failure of the Bank's debtors to settle their liabilities as they come due.

Liquidity risk policy:

- Ensuring that sound and specific criteria are set for investing the Bank's sources of funds in Syrian Pounds and foreign currencies.
- Ensuring that a clear method is set to assess and mitigate the liquidity risks that the Bank may face, taking into account Shari'ah standards, the resolutions of the Monetary and Credit Council, and the instructions of the Central Bank of Syria.
- Maintaining a liquidity ratio that is constantly higher than the minimum limits of the ratio set by the instructions of the Central Bank of Syria, whether for Syrian Pounds, foreign currencies, or all currencies and monitoring and following up on them daily and complying with the resolution of the Monetary and Credit Council No. 588/MN/B 4 of 2009.
- Risk Management conducting a liquidity stress test every quarter or when necessary assuming stressful scenarios according to the instructions of the Central Bank of Syria, and updating the limits of liquidity risk according to the results of this test.
- Analyzing liquidity (maturity gaps) periodically according to the directions of the Central Bank of Syria.
- Considering having sufficient cash balances in the Bank's accounts at the Central Bank of Syria and at correspondent banks to ensure settling liabilities as they come due.

The Bank will also, and in accordance with the applicable laws in Syria, and the Council of Minister's Resolution No. 5938 on 2 May 2011, retain at the Central Bank of Syria deposits cash reserves over customers deposits at a rate of 5%.

Operational risks:

The losses resulting from the failure, inadequate, or malfunction of the Bank's internal control systems, inadequate adopted business policies and procedures, errors in the used technical systems, staff errors, or those caused by an external event.

- Ensuring that all Bank employees comply with policies, instructions, and procedures manual set by the Bank, familiarize them with it, and ensuring a proper understanding of it to guarantee the best possible workflow and avoid making mistakes that may cause risks or losses to the Bank.
- Committing of each administrative level to the specified authorities and monitoring the commitment level and not bypassing them.

15. Risk management (continued)

Operational risks (continued)

- Segregating duties between employees, and avoiding assigning duties that create a conflict of interest or conflict in work tasks.
- Adopting risk mitigation procedures to transfer risks that can be transferred to third parties, such as insurance companies, or assign some transactions to other parties within the framework of their commitment to contracts signed with them and the applicable laws and legislations, and perceiving the size of expected losses, how to deal with them, manage and bear them.
- Setting disaster recovery plans and business continuity plans, and ensuring the readiness of these plans, managing data and records, and resorting back-up to enable the Bank to continue working and mitigate losses in case of severe failure such as communication equipment failure or work system interruption in informative and technology devices or damage to the physical structure of the assets.
- Setting policies and procedures manual for information security.

Shari'ah risk

Shari’ah risks arise from non-compliance with the Shari’ah Supervisory Board regulations and the Monetary and Credit Council regulations in connection with Shari`ah rules and principles, as well as non-compliance with the Shari’ah guidelines that exist within the policies and procedures of the Bank's departments.
To avoid these risks, the Bank conducts the following:

- Continuous training of Bank’s employees.
- Reviewing the departments’ policies and procedures and presenting them to the Shari’ah Supervisory Board before adopting.
- Withholding new product till ensuring that the Bank’s employees understand the Shari’ah concept upon which it is based.
- Setting procedures that ensure adherence to the Shari’ah standards and recommendations of Shari’ah Supervisory Board.