



Contents

The Bank's Mission And Objectives

Board of Directors Members

Mangement Board Members

Fatwa And Shariaa Board's Report

Auditor's Report

Financial Statement

Notes To The Financial Statement

Bank's Branches

* * *

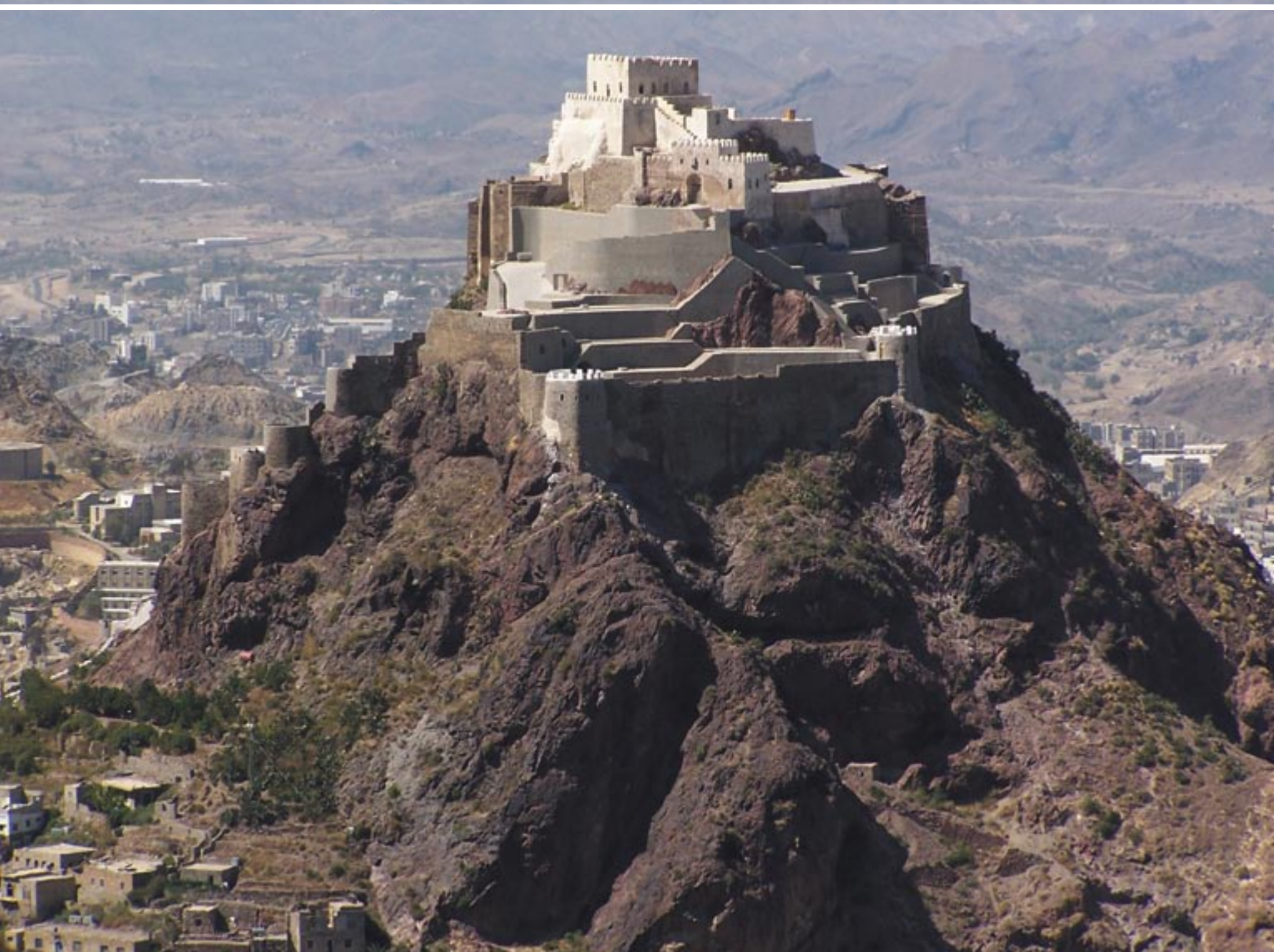


THE BANK'S MISSION

Tadhamon Int'l. Islamic bank, a Yemeni joint-stock company, is seeking to offer the best Islamic banking and investment products for customers, domestically and internationally, based on total quality standards; Through a set of modern and advanced working mechanisms, it looks forward to achieving good returns for shareholders, investors as well as staff to help in the economic and social drive of development in the country.

THE BANK'S OBJECTIVES

- Deepening and strengthening foundations of Islamic banking and investment.
- The participation in bringing about real development to promote the economic performance and to activate the various investment methods.
- Taking care of human cadre being the essential and real investment.
Supporting investment operations with regard to low projects and promote living conditions of low-income categories in the society.
- Covering all banking services and products to catch up with developments in the world of economy and information technology.
- Seeking for new investment portfolios in real-estate and trade.
- Expanding awareness of Islamic banking through different methods.





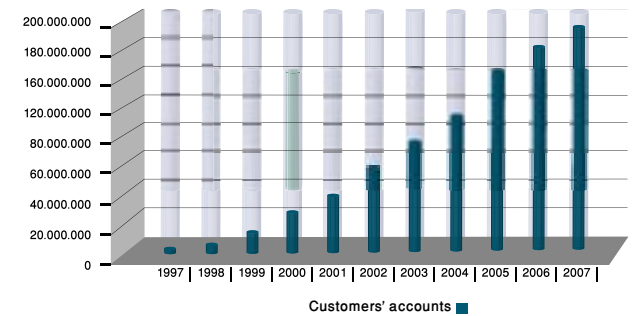
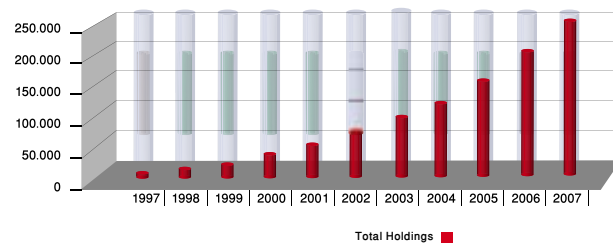
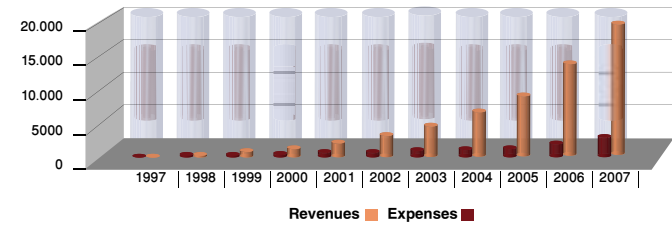
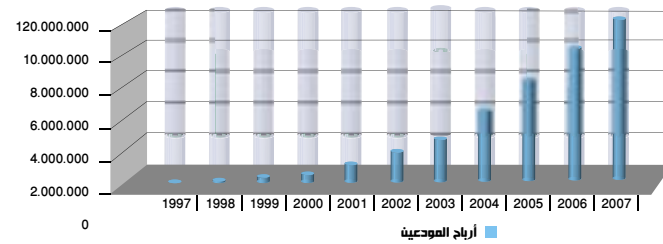
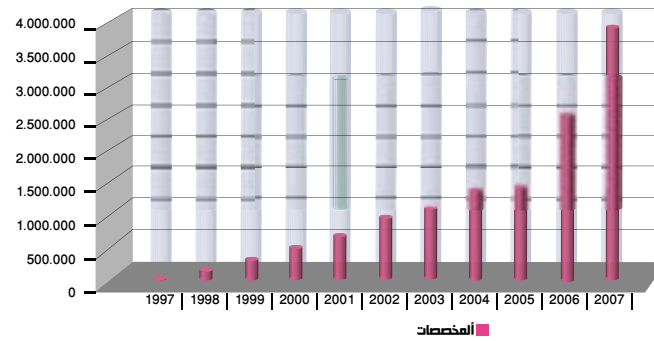
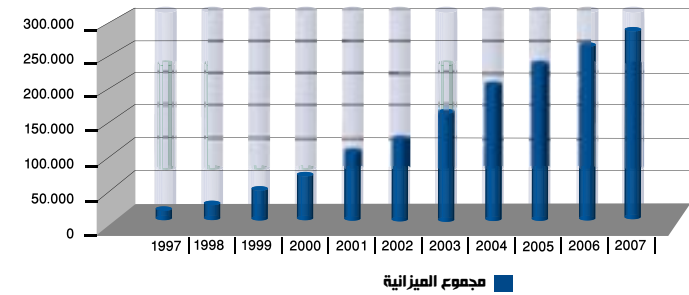
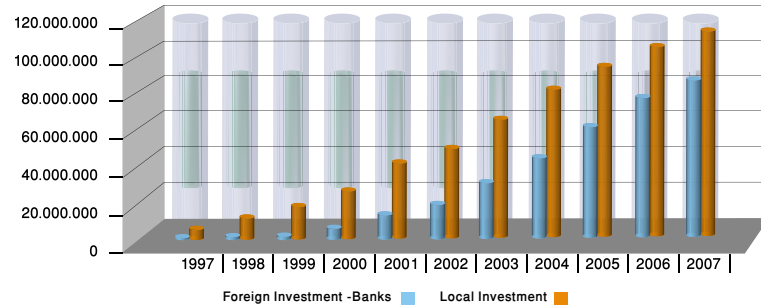
THE BOARD OF DIRECTORS MEMBERS

• Abdul-Gabbar Hayel Saeed	Chairman
• Abdul-Galeel Radman	Vice-Chairman
• Mohammed Abdu Saeed	Managing Director
• Omar Abdu Qaid	Member -Asst. Managing Director
• Mahfood Ali Mohammed Saeed	Member
• Abdullah Salem Al-Rammah	Member
• Tawfiq Abdul-Raheem Motahar	Member
• Abdullah Mohammed Al-Quss	Member
• Salah Mohammed Al- Gaedah	(Qatar Islamic Bank Representative)
• Mohammed Abdullah Al-Sunaidar	Member
• Dirhim Abdu Saeed	Member



THE MANAGEMENT BOARD MEMBERS

• Abdul-Gabbar Hayel Saeed	Chairman
• Abdul-Galeel Radman	Vice-Chairman
• Mohammed Abdu Saeed	Managing Director
• Omar Abdu Qaid	Member-Asst. Managing Director
• Abdullah Salem Al-Rammah	BOD Member
• Dr. Mohamed Kamel Abu Arida	General Manager
• Fathi Abdul-Wasa'a Hayel	Deputy General Manager
• Abdul-Rahman Al-Maktari	Asst. Gen. Manager for Investment & Banking Operations
• Mohammed Ameen Qasem	Asst. Gen. Manager for Finances, Control and Branches
• Zain Salem Al-Hebshi	Asst. Gen. Manager for Foreign Relations
• Jaffer H. Monawer	Asst. General Manager Inter'l Relations & Banking Services
• Dr. Abdullqawi R.M.Othman	Director, Foreign Investment Dept, International Relations Div.
• Fuad Q.S. Al -Aghbari	Manager of Local Investment & Credit Dept.





All praise and thanks are due to Allah, and peace and prayers be upon our Prophet and on his fellows and followers.

To Shareholders,

To Depositors,

Assalamu Alaikum Wa Rahmat Allah Wa Barakatuh
(Peace and blessings of Allah be upon you),

In accordance with the Articles of Association of the Bank concerning the formation of Sharia Supervisory Board and its duties and tasks in ensuring that the Bank's personnel are complying with the controls prescribed in Shariah. Sharia Supervisory Board is putting forward its report on the activities of the bank during the year ٢٠٠٧:

The Board held several meetings during the year to address the following issues:

- ١ Ensuring the soundness and correctness of procedures of transactions and contracts that the Bank is carrying out;
- ٢ Verifying that the Bank's activities and operations are free of Riba (usury) whether in relation to its operations;
- ٣ Answering questions and queries submitted to the Board from the bank's personnel and processing issues referred to the Board to give Sharia opinion on them;
- ٤ Making remarks on discrepancies that might have occurred during execution of transactions. The Board also made recommendations to correct the same, and putting aside the profits of transactions that can not be corrected;
- ٥ The Board continues to emphasize on its recommendation to the Bank's management on the necessity of making more efforts to implement the other Islamic investment methods and not to be restricted only to Murabaha.



The Board concluded the following:

- ١ The transactions and contracts executed by the bank are almost all conforming to the Islamic Sharia rules except some discrepancies that happened in the execution of some transactions and the attention to which has been drawn to executors before. Besides, the insurance of the assets of the bank is done through a conventional insurance company. And some external transactions that were not referred to the Board.
- ٢ The amounts that have been realized through resources that are not complied with Sharia rules and that have been put aside to be disbursed in the way approved by the Board.
- ٣ Profits distribution and loss bearing are in accordance with the basis that has been previously approved according to the rules of Islamic Sharia.

Submitting its report, the Sharia Supervisory Board is extending its thanks to the Bank's management for their response to the Board's decisions and recommendations. The Board is also praising the adherence of senior and executive management to the Sharia Controls and their wish to keep away from suspected dealings.

We beg Allah Almighty to grant us all success and straight-forwardness.

Dr. Moh'd Senan□
Member of Fatwa Boa□

Al- Amaria Mosque





To The SHAREHOLDERS of TADHAMON INTERNATIONAL ISLAMIC BANK SANA'A, REPUBLIC OF YEMEN

Report on the Financial Statements

We have audited the accompanying financial statements of Tadhamon International Islamic Bank, which comprise the balance sheet as at December 31, 2007, the income statement, cash flow statement and changes in shareholders' equity statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Accounting Standards for Islamic Financial Institutions and prevailing local laws and regulations and also operating in accordance with Islamic Sharia'. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.



Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing, the Auditing Standards for Islamic Financial Institutions and applicable Yemeni laws and regulations. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reason□

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Tadhamon International Islamic Bank as at December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with the accounting standards for Islamic Financial Institutions and prevailing local laws and regulations.

Report on Other Legal and Regulatory Requirements

We have obtained from management the information and clarifications that we deemed necessary for our audit. The Bank keeps proper books of account, and the accompanying financial statements are in agreement with these books.

□





BALANCE SHEET AS AT DECEMBER 31, 2007

	Note	2007 YR'000's	2006 YR'000's
Assets			
Cash on hand & reserve balances with Central Bank of Yemen (CBY)	9	37,573,753	28,937,219
Due from banks and financial institutions	10	26,309,080	29,296,596
Financing Murabaha transactions (net)	3.311/	77,896,237	61,087,207
Financing Istisna'a transactions (net)	3.313/	8,530,603	4,221,614
Investments in Mudaraba contracts (net)	3.415/	24,161,820	23,420,064
Investments in Musharaka contracts (net)	3.417/	5,646,913	1,546,482
Ijarah Muntahia Bittamleek	3.519/	73,818	250,986
Investment property	3.620/	11,322,067	4,595,808
Usufruct	3.721/	8,274,238	10,506,605
Available for sale investments	3.822/	16,453,265	13,321,230
Investments in subsidiaries and associates	3.923/	3,820,463	3,827,706
Debit balances & other assets (net)	24	8,580,257	2,339,522
Property and equipment (net)	3.1426/	3,211,276	2,590,658
Total assets		231,853,790	185,941,697
Liabilities, investment accounts and shareholders' equity			
Liabilities			
Current accounts and other deposits	27	52,304,263	46,217,135
Due to banks and financial institutions		2,550,405	44,327
Credit balances of Murabaha		8,629,805	1,285,039
Credit balances & other liabilities	28	2,019,771	1,318,585
Other provisions	30	1,278,295	1,125,285
Dividends payable		1,165,506	804,753
Total liabilities		67,948,045	50,795,124
Unrestricted investment and saving accounts' holders	31	147,366,169	119,811,539
Shareholders' equity			
Capital	33	9,192,051	9,101,255
Statutory reserve	34	4,387,926	3,943,854
General reserve		2,958,435	2,289,133
Retained earnings		1,164	792
Total shareholders' equity		16,539,576	15,335,034
Total liabilities, investment accounts and shareholders' equity		231,853,790	185,941,697
Contingent liabilities and commitments	3.1235/	65,044,930	73,988,757

(The accompanying notes from ١ to ٥١ form part of these financial statements)

Abdul-Jabbar Hayel Saeed Omar Abdo Kaid
Chairman Assistant Managing Director

Dr. Mohamed Kamel Abu Arida
General Manager

□ □ □ □ □

(KPMG Mejanni, Hazem Hassan & Co.)



INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED DECEMBER ٢٠٠٧, ٣١

	Note	2007 YR'000's	2006 YR'000's
Revenues of Murabaha and Istisna'a financing	36	6,563,135	4,883,789
Revenues of other joint investments	37	<u>7,509,840</u>	<u>5,469,462</u>
		14,072,975	10,353,251
Less:			
Return on unrestricted investment and saving accounts		(10,891,616)	(8,103,307)
		3,181,359	2,249,944
Commissions and fees income on banking services	38	1,406,266	1,348,077
Less: Commissions and fees expenses on banking services		(28,481)	(21,219)
Gains of foreign currency transactions	39	1,103,148	1,020,906
Losses of investment in subsidiaries and associates		(50,912)	-
Revaluation losses of available for sale investments		(182,138)	-
Other operating income		<u>12,873</u>	<u>134,809</u>
Operating profit		5,442,115	4,732,517
Less:			
Provisions	40	(471,378)	(525,288)
General and administrative expenses and depreciation	41	(1,865,688)	(1,288,913)
Depreciation of assets acquired for leasing		<u>(177,168)</u>	<u>(177,168)</u>
Net profit before tax		2,927,881	2,741,148
Income tax for the year		<u>(768,846)</u>	<u>(802,163)</u>
Net profit for the year		<u><u>2,159,035</u></u>	<u><u>1,938,985</u></u>
Earning per share	42	<u><u>YR 234</u></u>	<u><u>YR 300</u></u>

(The accompanying notes from ١ to ٥١ form part of these financial statements)

Abdul-Jabbar Hayel Saeed
Chairman

Omar Abdo Kaid
Assistant Managing Director

Dr. Mohamed Kamel Abu Arida
General Manager

Auditor's report attached.

M. Zohdi Mejanni
(KPMG Mejanni, Hazem Hassan & Co.)



CASH FLOW STATEMENT FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2007

	Note	2007 YR'000's	2006 YR'000's
Cash flows from operating activities:			
Net profit before tax		2,927,881	2,741,148
Adjustments to reconcile net profit to cash flows from operating activities			
Depreciation of fixed assets	26	187,742	129,439
Depreciation of assets acquired for leasing		177,168	177,168
Provisions	40	471,378	525,288
Provision for end of service compensation		19,325	16,873
Income tax paid		(802,163)	(370,286)
Net gains on sale of property and equipment		(5,717)	(128,089)
Losses (gains) of investment in subsidiaries and associates		50,912	(1,008)
Revaluation losses of available for sale investment		182,138	-
Provisions used		(248,380)	(132,686)
Return of unrestricted investment and saving accounts		10,891,616	8,103,307
Operating profit before changes in assets & liabilities related to operating activities		13,851,900	11,061,154
(Increase) in reserve balances with Central Bank of Yemen		(3,258,915)	(1,313,425)
(Increase) in debit balances and other assets		(6,321,033)	(539,941)
Increase in credit balances and other liabilities		8,884,157	161,628
Net cash flows provided by operating activities (1)		13,156,109	9,369,416
Cash flows from investing activities:			
(Increase) in financing Murabaha transactions		(16,905,543)	(18,532,945)
(Increase) in financing Istisna'a transactions		(4,352,514)	(246,057)
(Increase) in investments in Mudaraba contracts		(1,376,602)	(5,876,024)
(Increase) in investments in Musharaka contracts		(4,139,450)	(197,452)
(Increase) in Investment property		(6,726,259)	(2,457,915)
Decrease (increase) decrease in usufruct		2,232,367	(7,580,480)
(Increase) in available for sale investments		(3,314,173)	(7,566,460)
(Increase) in investments in subsidiaries and associates		(43,669)	(2,554,140)
Decrease (increase) in deposits with financial institutions		5,833,789	(8,965,771)
Net payments to purchase property and equipment		(802,643)	(168,613)
Net cash flows (used in) investing activities (2)		(29,594,697)	(54,145,857)



CASH FLOW STATEMENT (CONTINUED)
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2007

	2007 YR'000's	2006 YR'000's
Cash flows from financing activities:		
Increase in paid-up capital	90,796	5,351,255
Increase in share premium	120,217	2,935,654
Increase in unrestricted investment and saving accounts	24,766,321	33,433,779
Net increase in current accounts and other deposits	6,087,128	8,138,460
Increase (decrease) in due to banks and financial institutions	2,506,078	(2,116,308)
Paid dividends to depositors	(8,103,307)	(5,554,783)
Paid dividends to shareholders and Board of Directors	(804,753)	(379,500)
(Net cash flows provided by financing activities (٣	24,662,480	41,808,557
(Net change in cash and cash equivalent (٣+٢+١	8,223,892	(2,967,884)
Cash and cash equivalent at the beginning of the year	22,129,302	25,097,186
Cash and cash equivalent at the end of the year	30,353,194	22,129,302
:Cash and cash equivalent consist of		
Cash on hand and balances at CBY, other than reserve	17,696,106	7,450,354
Due from banks and financial institutions	12,657,088	14,678,948
	30,353,194	22,129,302

(The accompanying notes from ١ to ٥١ form part of these financial statements)

Abdul-Jabbar Hayel Saeed
Chairman

Omar Abdo Kaïd
Assistant Managing Director

Dr. Mohamed Kamel Abu Arida
General Manager

Auditor's report attached.

M. Zohdi Mejanni
(KPMG Mejanni, Hazem Hassan & Co.)



STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2007

	Paid up Capital YR'000's	Statutory Reserve YR'000's	General Reserve YR'000's	Retained Earnings YR'000's	Total YR'000's
Balance at January 1, 2006	3,750,000	717,352	1,445,318	1,223	5,913,893
Net profit for the year (after tax)	-	-	-	1,938,985	1,938,985
Increase in paid up capital	5,351,255	-	-	-	5,351,255
Share premium	-	2,935,654	-	-	2,935,654
Transfer to statutory reserve	-	290,848	-	(290,848)	-
Transfer to general reserve	-	-	843,815	(843,815)	-
Dividends to shareholders	-	-	-	(793,753)	(793,753)
BOD remuneration	-	-	-	(11,000)	(11,000)
Balance at December 31, 2006	9,101,255	3,943,854	2,289,133	792	15,335,034
Net profit for the year (after tax)	-	-	-	2,159,035	2,159,035
Increase in paid up capital	90,796	-	-	-	90,796
Share premium	-	120,217	-	-	120,217
Transfer to statutory reserve	-	323,855	-	(323,855)	-
Transfer to general reserve (proposed)	-	-	669,302	(669,302)	-
Dividends to shareholders (proposed)	-	-	-	(1,149,006)	(1,149,006)
BOD remuneration (proposed)	-	-	-	(16,500)	(16,500)
Balance at December 31, 2007	<u>9,192,051</u>	<u>4,387,926</u>	<u>2,958,435</u>	<u>1,164</u>	<u>16,539,576</u>

(The accompanying notes from \ to ٥\ form part of these financial statements)

Abd□

Chairman

Assistant Managing Director

General Manager

Auditor's report attached.

□

(KPMG Mejanni, Hazem Hassan & Co.)



1.BACKGROUND

Tadhamon International Islamic Bank - a Yemeni joint-stock company - was established under the name of Yemen Islamic Bank for Investment and Development in accordance with the Ministerial Decree No. (147) for the year 1995. The name of the Bank has been changed to Tadhamon Islamic Bank according to the Ministerial Decree No. (169) for the year 1996. The shareholders extra ordinary meeting decided on March 20, 2002 to change the name of the Bank to Tadhamon International Islamic Bank. The objectives of the Bank are to finance, invest, and offer banking services in accordance with Article No. (3) of the Bank's Articles of Association which states that the bank performs its activities in conformity with the precepts of Islamic Shari'a. The bank started its activities on July 20th, 1996, through the main branch in Sana'a and expanded to (21) branches all over the Republic of Yemen.

2. PREPARATION BASIS OF THE FINANCIAL STATEMENTS

2.1 The financial statements are prepared on the historical cost basis, except available-for-sale investment and financial instruments (financial assets and liabilities) held at fair value, and in accordance with Accounting Standards for Islamic Financial Institution, the requirement of the current local prevailing laws and regulations as well as rules and instructions issued by Central Bank of Yemen (CBY).

2.2 The financial statements are presented in Yemeni Rials and all values are rounded to the nearest one thousand Yemeni Rials except when otherwise is indicated.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Translation of foreign currencies

- The Bank maintains its accounting records in Yemeni Rial, which is the Bank's functional currency. Transactions in other currencies are recorded during the financial year at the prevailing exchange rates at the date of transaction. Balances of monetary assets and liabilities in other currencies at the end of the financial year are translated at the prevailing exchange rates on that date. Gains or losses resulting from translation are taken to the income statement.

- 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.



3.2 Revenue recognition

a. Murabaha and Istisna'a

□ Profits on Murabaha and Istisna'a contracts are recorded on the accrual basis as all profits at the completion of Murabaha contract are recorded as deferred revenues and taken to the income statement, depending on the finance percentage, using the straight line method over the term of contract.

□ In order to comply with the requirements of CBY, the Bank does not accrue the profits relating to non-performing debts.

b. Mudaraba and Musharaka

□ Profits on investments in Mudaraba and Musharaka contracts, which initiate and terminate during the financial year, are recorded in the statement of income.

□ Profits on investments in Mudaraba and Musharaka contracts, which last for more than one financial year, are recorded, based on cash profits distributed on these transactions during the year.

c. Ijarah and Ijarah Muntahia Bittamleek

The Ijarah and Ijarah Muntahia Bittamleek revenues are recorded over the term of the lease contract.

d. Available for sale investments

Revenues of available for sale investments are recorded based on the cash dividends received on these investments during the year

e. Investments in subsidiaries and associates

Revenues of investments in subsidiaries and associates are recorded when the financial statements of these companies are approved (see Note No. 3.9).

3.3 Valuation of Murabaha and Istisna'a financing transactions

□ Debts relating to financing Murabaha and Istisna'a transactions, whether short or long-term, are recorded at cost in addition to agreed upon profits stated in Murabaha and Istisna'a contracts.



In order to comply with the requirements of CBY, provision is provided for specific debts and contingent liabilities, in addition to a percentage for general risk calculated on the total of other debts 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 portfolio and contingent liabilities and made in accordance with the following minimum rates:

<u>Performing debts including watch list</u>	1%
<u>Non-performing debts:</u>	
Substandard debts	15%
Doubtful debts	45%
Bad debts	100%

□ 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.

□ Debts relating to financing Murabaha and Istisna'a transactions, whether short or long term, are presented on the balance sheet net of related provisions (non performing debts provision and general risk provision on performing debts), and deferred revenues.

3.4 Valuation of investments in Mudaraba and Musharaka contracts

□ Investments in Mudaraba and Musharaka contracts are recorded on the basis of the amount paid to the capital of Mudaraba or Musharaka. Investments in in-kind 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, provision is provided for specific Mudaraba and Musharaka contracts which realized losses, in addition to a percentage for general risk calculated on the total of other Mudaraba and Musharaka contracts after deducting balances secured by deposits and banks' guarantees issued by worthy banks.

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

<u>Performing debts including watch list</u>	1%
<u>Non-performing debts:</u>	
Substandard debts	15%
Doubtful debts	45%
Bad debts	100%



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

Investments in Mudaraba and Musharaka contracts are presented on the balance sheet at carrying value which represents cost less recognized losses and related provisions (provision for non-performing debts and general risk provision on performing debts).

3.5 Ijarah and Ijarah Muntahia Bittamleek

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

3.6 Valuation of investment property

Investment property purchased by the Bank for trading purposes are recorded at historical cost at the financial statements date less impairment losses, if any, according to CBY instructions.

3.7 Usufruct

Usufruct is recorded at acquisition cost less accumulated depreciation and impairment losses, if any, and depreciated over the usufruct contract term.

3.8 Valuation of available for sale investments

Available for sale investments are recorded at acquisition cost. At the financial statements date, they are individually valued at fair value. Valuation differences are charged to the income statement in accordance with CBY instructions.

In case that reliable estimate of the fair value of these investments can not be obtained, due to lack of either quoted market prices or tangible stability in its prices, they are recorded at cost.

3.9 Valuation of investments in subsidiaries and associates

Investments in subsidiaries which the Bank has control over or associates which the Bank has significant influence over are recorded at acquisition cost. At the financial statements date, these investments are adjusted according to the Bank's share in the equity of subsidiaries and associates based on the approved financial statements of these companies. This adjustment



is taken to the income statement. In case the financial statements of these companies can not be obtained, they are recorded at cost.

3.10 Valuation of assets for which titles have been transferred to the Bank as a repayment of debts

Assets for which titles have been transferred to the Bank are recorded in the balance sheet under “Debit balances and other assets” at the values carried by the Bank less any impairment in its value at the financial statements’ date. This impairment is charged to the income statement.

3.11 Valuation of restricted investments

Murabaha transactions financed by restricted investment accounts are recorded on the same valuation basis mentioned above with related profits (losses) and provisions taken to restricted investment accounts net of the Bank’s share for managing these investments.

3.12 Contingent liabilities and commitments

Contingent liabilities and commitments, in which the Bank is a party, are presented off balance sheet, net of margin held from customers, under “contingent liabilities and commitments” as they do not represent actual assets or liabilities at the balance sheet date.

3.13 Cash and cash equivalent

For the purpose of preparing the cash flow statement, cash and cash equivalent consist of cash on hand, cash balances with CBY, other than reserve balances, and demand deposits with other banks.

3.14 Property, equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation of fixed assets is charged to the income statement on the straight-line method over the estimated useful lives of these assets which are as follows:

	<u>Estimated Useful Lives</u>
Buildings	40 years
Machinery & equipment	10 years
Motor vehicles	5 years
Furniture and fixtures	5 / 40 years
Computer equipment	5 years



3.15 Impairment of assets

The Bank reviews the carrying amounts of the assets, according to its materiality, at the balance sheet date to determine whether there is any indication of impairment. If such indication exists, the assets' recoverable amount is estimated and compared with the carrying amount and any excess in the carrying amount is charged to the statement of income.

Any increase in the value of the assets is also recognized in the statement of income provided that the increase does not exceed the original recoverable value of the asset before impairment.

3.16 End of service bonus

End of service bonus for uninsured Bank employees is calculated at 9% of last comprehensive wage for each complete month of service. The accrued bonus is included in other provisions.

3.17 Taxation

- Corporate tax is calculated in accordance with the prevailing laws and regulations in the Republic of Yemen.
- Provision for tax liabilities is made after studying the tax assessments. Due to the characteristics of the tax accounting in Yemen, provision for tax liabilities relating to deferred taxes is formed. In case of deferred tax assets, these assets are not certain to be realized in the near future. Accordingly, such assets are not recorded.

3.18 Statement of changes in restricted investments

Statement of changes in restricted investments, if applicable, presents investments fully financed by funds received by the Bank from restricted investment accounts holders. The Bank manages restricted investments' as an agent. The Bank does not participate in the investments' outcome and the movement of restricted investments are presented in the statement of changes in restricted investments.

3.19 Prohibited revenues

Revenues prohibited by Islamic Sharia', which are represented mainly in CBY interest, are recorded in a separate account under "Cr□



4. SUPERVISION OF CENTRAL BANK OF YEMEN

The Bank's activities are subject to the supervision of CBY in accordance with the prevailing banking laws and regulations in the Republic of Yemen and those relating to Islamic banks.

5. SHARIA' BOARD

The Bank's activities are subject to the supervision of the Sharia' Board which consists of 3 members appointed by the Bank's General Assembly to monitor the Bank's activities according to the Islamic Sharia' rules.

6. ZAKAT

Zakat is computed according to the directions of the Sharia' Board of the Bank and collected from the shareholders on behalf of the relevant Government Authority. The amount collected is remitted to this authority, which decides on the allocation of the Zakat.

7. FINANCIAL INSTRUMENTS AND MANAGING THEIR RELATED RISKS

7.1 Financial instruments

a. The Bank's financial instruments consist of financial assets and liabilities. Financial assets include cash balances, current accounts, deposits with banks and financing of Murabaha, Istisna'a, Mudaraba and Musharaka transactions and related debts, investment property, usufruct, Ijarah Muntahia Bittamleek, available for sale investments and investments in subsidiaries and associates. Financial liabilities include current and saving accounts, due to banks and investment accounts. 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 of financial instruments

Based on valuation bases of the Bank's assets and liabilities stated in the notes to the financial statements, the fair values of the financial instruments do not differ fundamentally from their book values at the balance sheet date.

7.2 Risk management of financial instruments

Risk is inherent in the Bank's activities but it is managed through a process of on-going identification, measurement and



monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing

The Bank is exposed to credit risk, liquidity risk, return rate risk and exchange rate risk.

a. Credit risk

Financing of Murabaha, Mudaraba and Musharaka transactions and their related debts, current accounts, deposits with banks and rights and obligations from others are considered financial assets exposed to credit risk. Credit risk represents the inability of these parties to meet their obligations when they fall due. In order to comply with CBY requirements, the Bank adheres to certain minimum standards in order to properly manage its credit risk such as:

- Preparing credit studies on customers and banks before dealing with them and determining their related credit risk rating.
- Obtaining sufficient collaterals to minimize the credit risk exposure which may result in cases of insolvency of customers and 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 the balance sheet. The maximum exposure is shown gross, before the effect of mitigation by the use of collateral agreements:

	2007 YR'000's	2006 YR'000's
Cash on hand & reserve balances with CBY (excluding cash on hand)	27,995,261	24,736,346
Due from banks and financial institutions	26,309,080	29,296,596
Financing Murabaha transactions (net)	77,896,237	61,087,207
Financing Istisna'a transactions (net)	8,530,603	4,221,614
Investments in Mudaraba contracts (net)	24,161,820	23,420,064
Investments in Musharaka contracts (net)	5,646,913	1,546,482
Ijarah Muntahia Bittamleek	73,818	250,986
Investment property	11,322,067	4,595,808
Usufruct	8,274,238	10,506,605
Available for sale investments	16,453,265	13,321,230
Investments in subsidiaries and associates	3,820,463	3,827,706
Debit balances & other assets (net)	8,580,257	2,339,522
	219,064,022	179,150,166
Contingent liabilities and commitments	70,608,644	82,490,137
Total credit exposure	289,672,666	261,640,303



The Bank manages concentration of risk by distributing the portfolio over diversified economic sectors and geographical locations. Note no. 44 shows the distribution of financial instruments over different economic sectors and Note no. 45 shows the distribution of financial instruments based on geographical locations.

b. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its obligations when they fall due under normal circumstances. To limit this risk, 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 table below shows the maturity analysis for financial liabilities that shows the remaining contractual maturities:

	2007				
	Less than 3 months YR000s	From 3 to 6 months YR000s	From 6 months to 1 year YR 000s	Over 1 year YR 000s	Total YR 000s
<u>Liabilities</u>					
Due to banks	2,345,807	204,598	-	-	2,550,405
Current account and others	21,003,243	14,428,137	11,942,930	4,929,953	52,304,263
Unrestricted investment and saving account's holders	26,432,135	39,508,632	34,612,490	46,812,912	147,366,169
Income tax for the year	768,846	-	-	-	768,846
Total liabilities	50,550,031	54,141,367	46,555,420	51,742,865	202,989,683
	2006				
	Less than 3 months YR 000s	From 3 to 6 months YR 000s	From 6 months to 1 year YR 000s	Over 1 year YR 000s	Total YR 000s
<u>Liabilities</u>					
Due to banks	44,327	-	-	-	44,327
Current account and others	37,515,128	2,964,163	3,898,501	1,839,343	46,217,135
Unrestricted investment and saving account's holders	19,078,443	16,110,895	43,202,299	41,419,902	119,811,539
Income tax for the year	802,163	-	-	-	802,163
Total liabilities	57,440,061	19,075,058	47,100,800	43,259,245	166,875,164

In addition to the above, Note no. 43 shows the maturity analysis of assets and liabilities and the net gap between them.



c. Return rate risk

Return due on unrestricted investment and saving accounts is determined on the basis of Mudaraba contract, which determines 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 investment and saving accounts holders. Therefore, the bank is not exposed, directly, to the risk of change in return rate.

d. Exchange rate risk

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 that the aggregate open 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 the Bank regulatory monitors its foreign currency positions and sells the excess funds in foreign currencies at the prevailing exchange rates at the date of transaction.

The table below shows the Bank's significant net exposures to foreign currencies:

		2007						
		US Dollars YR 000s	EURO YR 000s	Saudi Rial YR 000s	Sterling Pound YR 000s	UAE Dirham YR 000s	Japanese Yen YR 000s	Total YR 000s
Assets		98,297,456	4,160,858	20,518,348	1,490,040	1,376,823	25,695	125,869,220
Liabilities		(100,192,066)	(3,261,501)	(19,059,342)	(318,247)	(2,719)	(77,982)	(122,911,857)
Net currency position		(1,894,610)	899,357	1,459,006	1,171,793	1,374,104	(52,287)	2,957,363

		2006						
		US Dollars YR 000s	EURO YR 000s	Saudi Rial YR 000s	Sterling Pound YR 000s	UAE Dirham YR 000s	Japanese Yen YR 000s	Total YR 000s
Assets		93,545,425	3,507,665	4,081,068	411,036	1,038,843	28,979	102,613,016
Liabilities		(93,874,201)	(3,249,178)	(3,433,754)	(108,164)	(11,147)	(73,364)	(100,749,808)
Net currency position		(328,776)	258,487	647,314	302,872	1,027,696	(44,385)	1,863,208

Note 46 to the financial statements indicates the significant foreign currencies' positions at the balance sheet date.



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 Basel Accords 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 required information is filed with the CBY on a quarterly basis, in order to comply with the requirement of 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 calculated in accordance with the guidelines of the CBY is as follows:

	2007 YR 000s	2006 YR 000s
Capital base	<u>18,263</u>	<u>16,872</u>
<u>Risk-weighted assets and liabilities:</u>		
Total assets	131,189	99,095
Contingent liabilities and commitments	<u>27,627</u>	<u>36,106</u>
Total risk-weighted assets and liabilities	<u>158,816</u>	<u>135,201</u>
Capital adequacy ratio	<u>11.5%</u>	<u>12.5%</u>

9. CASH ON HAND AND RESERVE BALANCES WITH CENTRAL BANK

	2007 YR'000's	2006 YR'000's
Cash on hand and ATM machines– local currency	4,511,116	1,150,392
Cash on hand and ATM machines – foreign currency	<u>5,067,376</u>	<u>3,050,481</u>
	<u>9,578,492</u>	<u>4,200,873</u>
Reserve balances at CBY – local currency	9,210,197	5,934,273
Reserve balances at CBY – foreign currency	<u>18,785,064</u>	<u>18,802,073</u>
	<u>27,995,261</u>	<u>24,736,346</u>
	<u>37,573,753</u>	<u>28,937,219</u>

The reserve balances with CBY represent the minimum reserve requirements against customers' accounts in Yemeni Rial and US Dollar. These funds are not available for the Bank's daily business.



10. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2007 YR'000's	2006 YR'000's
<u>Central Bank of Yemen</u>		
Current accounts – local currency	7,730,039	2,542,908
Current accounts – foreign currency	387,575	706,573
	<u>8,117,614</u>	<u>3,249,481</u>
<u>Foreign banks</u>		
Current accounts	12,657,088	14,678,948
Deposits with Islamic financial institutions	5,534,378	11,368,167
	<u>18,191,466</u>	<u>26,047,115</u>
	<u>26,309,080</u>	<u>29,296,596</u>

11. FINANCING MURABAHA TRANSACTIONS (NET)

	Note	2007 YR'000's	2006 YR'000's
Murabaha – local		77,822,433	59,270,119
Murabaha – foreign		4,731,351	5,911,923
		<u>82,553,784</u>	<u>65,182,042</u>
Less: Murabaha transactions provision	12	(1,737,776)	(1,641,263)
Less: Deferred revenues		(2,919,771)	(2,453,572)
		<u>77,896,237</u>	<u>61,087,207</u>

Non-performing financing Murabaha transactions amounted to YR 1,064,318 Thousand at 31/12/2007 (YR 2,433,802 Thousand at 31/12/2006). The break up of the above amount is as follows:

	2007 YR'000's	2006 YR'000's
Substandard debts	71,898	359,247
Doubtful debts	92,955	1,982,046
Bad debts	<u>899,465</u>	<u>92,509</u>
	<u>1,064,318</u>	<u>2,433,802</u>



12. MURABAHA TRANSACTIONS PROVISION (PERFORMING & NON-PERFORMING)

	2007			2006		
	Specific YR'000's	General YR'000's	Total YR'000's	Specific YR'000's	General YR'000's	Total YR'000's
Balance at beginning of the year	1,038,316	602,947	1,641,263	738,348	424,104	1,162,452
Provided during the year (income statement)	-	7,074	7,074	118,795	178,843	297,638
Provided during the year from credit balances	-	-	-	30,803	-	30,803
Transfer from specific to general	(86,237)	86,237	-	-	-	-
Transfer from Mudaraba provision	-	-	-	150,370	-	150,370
Transfer from other provisions	-	89,439	89,439	-	-	-
Balance at end of the year	<u>952,079</u>	<u>785,697</u>	<u>1,737,776</u>	<u>1,038,316</u>	<u>602,947</u>	<u>1,641,263</u>

13. FINANCING ISTISNA'A TRANSACTIONS (NET)

	Note	2007 YR'000's	2006 YR'000's
Istisna'a		9,086,514	4,378,955
Less: Istisna'a transactions provision	14	(86,168)	(42,643)
Less: Deferred revenues		(469,743)	(114,698)
		<u>8,530,603</u>	<u>4,221,614</u>

14. ISTISNA'A TRANSACTIONS PROVISION (PERFORMING)

	2007			2006		
	Specific YR'000's	General YR'000's	Total YR'000's	Specific YR'000's	General YR'000's	Total YR'000's
Balance at beginning of the year	-	42,643	42,643	-	40,182	40,182
Provided during the year from credit balances	-	43,525	43,525	-	2,461	2,461
Balance at end of the year	<u>-</u>	<u>86,168</u>	<u>86,168</u>	<u>-</u>	<u>42,643</u>	<u>42,643</u>



15. INVESTMENTS IN MUDARABA CONTRACTS (NET)

	Note	2007 YR'000's	2006 YR'000's
Investments in Mudaraba contracts - foreign		24,985,594	23,633,992
Investments in Mudaraba contracts - local		45,000	20,000
		25,030,594	23,653,992
Less: Mudaraba contracts provision	16	(868,774)	(233,928)
		<u>24,161,820</u>	<u>23,420,064</u>

16. MUDARABA CONTRACTS PROVISION (PERFORMING & NON-PERFORMING)

	2007			2006		
	Specific YR'000's	General YR'000's	Total YR'000's	Specific YR'000's	General YR'000's	Total YR'000's
Balance at beginning of the year	-	233,928	233,928	219,519	164,779	384,298
Provided during the year from income statement	22,266	10,131	32,397	-	-	-
Provided during the year from credit balances	602,449	-	602,449	-	-	-
Transfer to general provision	-	-	-	(69,149)	69,149	-
Transfer to Murabaha provision	-	-	-	(150,370)	-	(150,370)
Balance at end of the year	<u>624,715</u>	<u>244,059</u>	<u>868,774</u>	<u>-</u>	<u>233,928</u>	<u>233,928</u>

* Non-performing Mudaraba contracts amount to YR 624,715 Thousand at 31/12/2007.

17. INVESTMENTS IN MUSHARAKA CONTRACTS (NET)

	Note	2007 YR'000's	2006 YR'000's
Investments in Musharka contracts - foreign		5,717,147	1,562,103
Investments in Musharka contracts - local		-	2,400
		5,717,147	1,564,503
Less: Musharaka investments provision	18	(57,040)	(18,021)
Less: Deferred revenues		(13,194)	-
		<u>5,646,913</u>	<u>1,546,482</u>



18. INVESTMENTS IN MUSHARAKA CONTRACTS PROVISION (PERFORMING AND NON PERFORMING)

	2007			2006		
	Specific YR'000's	General YR'000's	Total YR'000's	Specific YR'000's	General YR'000's	Total YR'000's
Balance at beginning of the year	2,400	15,621	18,021	17,221	13,498	30,719
Transfer from specific to general	(2,400)	2,400	-			
Provided during the year from credit balances	-	39,019	39,019	2,400	2,123	4,523
Provision used	-	-	-	(17,221)	-	(17,221)
Balance at end of the year	<u>-</u>	<u>57,040</u>	<u>57,040</u>	<u>2,400</u>	<u>15,621</u>	<u>18,021</u>

19. IJARAH MUNTAHIA BITTAMLEEK

	2007 YR'000's	2006 YR'000's
Total cost	669,024	669,024
Less: accumulated depreciation	(595,206)	(418,038)
Net book value	<u>73,818</u>	<u>250,986</u>

Cost represents two FOCRZ50 planes and plane engines leased to Motive Force Co. in Sudan according to a lease contract that ends May 1, 2008. (After rescheduling of the installments).

20. INVESTMENT PROPERTY

	2007 YR'000's	2006 YR'000's
Investment property - local	6,378,950	3,832,487
Investment property - foreign	<u>4,943,117</u>	<u>763,321</u>
	<u>11,322,067</u>	<u>4,595,808</u>

The Bank is currently taking the necessary procedures to approve some of the local lands contracts with Government authorities.

21. USUFRUCT

	2007 YR'000's	2006 YR'000's
Algawar Tower - KSA	8,274,238	5,954,625
Al Marwa Tower - KSA	-	<u>4,551,980</u>
	<u>8,274,238</u>	<u>10,506,605</u>

- The Algawar Tower (Makaa El Mokarama, KSA) balance represents the amount paid for the usufruct of the entire second tower for 23 Hijri years starting from 1/3/1426h (April 2005) including the construction period which is not finished yet.



22. AVAILABLE FOR SALE INVESTMENTS

Available for sale investments

All available for sale investments are foreign investments.

2007
YR'000's
16,453,265

2006
YR'000's
13,321,230

23. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	2007 YR'000's	Percentage of investment %	2006 YR'000's	Percentage of investment %
Yemen Islamic Insurance Co.	19,611	10%	17,920	10%
Motive Force Co. Ltd.	226,198	17%	247,626	14.4%
National Company for Cement	951,576	6.25%	951,576	6.25%
Al-Widad Trading Co. (under incorporation)	49,068	95%	49,068	95%
Islamic Co. for payment (under incorporation)	18,196	45%	20,588	51%
Tameer Yemen Company (under incorporation)	2,493,897	25%	2,481,375	25%
Yemeni Co. for financial services (under incorporation)	<u>61,917</u>	25%	<u>59,553</u>	25%
	<u>3,820,463</u>		<u>3,827,706</u>	

24. DEBIT BALANCES & OTHER ASSETS (NET)

	Note	2007 YR'000's	2006 YR'000's
Debtors of usufruct (Al Marwa Tower)		5,081,550	-
Overdraft		111,543	161,860
Unpaid LCs		12,070	79,612
Advances to employees		218,642	41,092
Debtors of Qard Hasan		1,336	6,081
Prepaid expenses		34,346	18,567
Debtors of Ijarah Muntahia Bittamleek		131,197	366,308
Projects under processing		1,275,887	886,466
Accrued income		103,139	1,886
Stationary inventory		40,705	23,842
Property and equipment in stores		92,647	40,586
Assets which titles have been transferred to the Bank's ownership 3.10		1,225,734	625,000
Others		549,252	305,715
		<u>8,878,048</u>	<u>2,557,015</u>
Less: Provision for doubtful debts	25	<u>(297,791)</u>	<u>(217,493)</u>
		<u>8,580,257</u>	<u>2,339,522</u>



25. PROVISION FOR DOUBTFUL DEBTS

	2007 YR'000's	2006 YR'000's
Balance at beginning of the year	217,493	30,507
Provided during the year from credit balances	119,895	186,986
Provision used during the year	(39,597)	-
Balance at the end of the year	<u>297,791</u>	<u>217,493</u>

26. PROPERTY AND EQUIPMENT (NET)

	2007			2006
	Cost YR'000's	Accumulated depreciation YR'000's	Net YR'000's	YR'000's
Land	2,055,097	-	2,055,097	1,785,756
Buildings	225,171	(4,316)	220,855	97,791
Equipment and machinery	422,538	(183,224)	239,314	147,640
Vehicles	263,741	(84,339)	179,402	102,244
Furniture and fixtures	353,421	(152,293)	201,128	154,154
Computers	<u>608,337</u>	<u>(292,857)</u>	<u>315,480</u>	<u>303,073</u>
	<u>3,928,305</u>	<u>(717,029)</u>	<u>3,211,276</u>	<u>2,590,658</u>

Depreciation amounted to YR 187,742 Thousand for the year 2007 (YR 129,439 Thousand for the year 2006), note 41.

27. CURRENT ACCOUNTS AND OTHER DEPOSITS

	2007 YR'000's	2006 YR'000's
Current accounts	46,322,235	37,143,418
Cash deposits	5,563,714	8,501,380
Other deposits	<u>418,314</u>	<u>572,337</u>
	<u>52,304,263</u>	<u>46,217,135</u>

28. CREDIT BALANCES & OTHER LIABILITIES

	2007 YR'000's	2006 YR'000's
Income tax for the year	768,846	802,163
Accrued expenses	63,533	50,199
Creditors and sundry credit balances	1,111,195	191,108
Installments of Ijarah Muntahia Bittamleek	<u>76,197</u>	<u>275,115</u>
	<u>2,019,771</u>	<u>1,318,585</u>



29. PROHIBITED REVENUES BY ISLAMIC SHARIA'

Revenues prohibited by Islamic Sharia', which are represented mainly in CBY interest, are recorded in a separate account under "Credit balances and other liabilities" on the balance sheet. They are utilized in the areas approved by the Bank's Sharia' Board.

The following are the movement of prohibited revenues during the year:

	2007 YR'000's	2006 YR'000's
Balance at the beginning of the year	-	-
Revenues during the year	1,023,402	731,636
	<u>1,023,402</u>	<u>731,636</u>
<u>Expenses</u>		
Donations	(218,514)	(146,609)
Transfer to provisions	(804,888)	(585,027)
	<u>(1,023,402)</u>	<u>(731,636)</u>
Balance at the end of the year	-	-

30. OTHER PROVISIONS

	2007			
	Provision for contingent liabilities YR'000's	Provisions for end of service compensation YR'000's	Provisions for contingent claims YR'000's	Total YR'000's
Balance at beginning of the year	739,888	85,397	300,000	1,125,285
Provided during the year	-	100,686	350,546	451,232
Used during the year	-	(58,237)	(150,546)	(208,783)
Transfer to Murabaha provision	(89,439)	-	-	(89,439)
Balance at end of the year	<u>650,449</u>	<u>127,846</u>	<u>500,000</u>	<u>1,278,295</u>

	2006			
	Provision for contingent liabilities YR'000's	Provisions for end of service compensation YR'000's	Provisions for contingent claims YR'000's	Total YR'000's
Balance at beginning of the year	379,634	68,339	188,000	635,973
Provided during the year	-	64,373	180,150	244,523
Provided during the year from credit balances	360,254	-	-	360,254
Used during the year	-	(47,315)	(68,150)	(115,465)
Balance at end of the year	<u>739,888</u>	<u>85,397</u>	<u>300,000</u>	<u>1,125,285</u>



31. UNRESTRICTED INVESTMENT AND SAVING ACCOUNTS' HOLDERS

	2007 YR'000's	2006 YR'000's
Saving accounts – local currency	26,327,879	18,595,941
Saving accounts – foreign currency	25,673,834	20,872,235
	<u>52,001,713</u>	<u>39,468,176</u>
Deposits for more than one year – local currency	45,278,168	26,308,916
Deposits for more than one year – foreign currency	39,194,672	45,931,140
	<u>84,472,840</u>	<u>72,240,056</u>
Return for unrestricted investment and saving accounts	<u>10,891,616</u>	<u>8,103,307</u>
	<u>147,366,169</u>	<u>119,811,539</u>

32. ALLOCATION OF INVESTMENT AND SAVING ACCOUNTS RETURN

The investment return allocation between shareholders and customers is 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 and participation ratios and approved by the Board of Directors. The average return ratios were as follows:

	2007		2006	
	Local Currency %	Foreign Currency %	Local Currency %	Foreign Currency %
Ongoing deposits	14.234	6.00	15.12	5.60
Saving accounts	10.885	4.50	11.56	4.20

33. CAPITAL

The authorized and issued capital is YR 10 Billion represented in 10 Million shares of nominal value of YR 1,000 each, according to the extraordinary general assembly meeting decision on March 29, 2006

The following shows the movement of the capital during the year:

	YR'000's
Capital before the increase	3,750,000
Capital increase	6,250,000
	<u>10,000,000</u>
Unpaid amounts	(807,949)
Paid up capital in 31/12/2007	<u>9,192,051</u>



34. STATUTORY RESERVE

According to the Bank's Articles of Association and CBY instructions, 15% of the net profit for the year is transferred to statutory reserve till it equals two times paid-up capital.

The following is the balance as at the end of the year.

	2007 YR'000's	2006 YR'000's
Balance at the beginning of the year	3,943,854	717,352
Transfer from net profit	323,855	290,848
Share premium	120,217	2,935,654
Balance at the end of the year	<u>4,387,926</u>	<u>3,943,854</u>

35. CONTINGENT LIABILITIES AND COMMITMENTS (NET)

	2007		
	Gross commitments YR'000's	Margin held YR'000's	Net commitments YR'000's
L/Cs for Murabaha contracts	19,502,977	(211,717)	19,291,260
Letters of credit	21,005,642	(1,914,552)	19,091,090
Letters of guarantee	<u>30,100,025</u>	<u>(3,437,445)</u>	<u>26,662,580</u>
	<u>70,608,644</u>	<u>(5,563,714)</u>	<u>65,044,930</u>

	2006		
	Gross commitments YR'000's	Margin held YR'000's	Net commitments YR'000's
L/Cs for Murabaha contracts	16,404,104	(543,701)	15,860,403
Letters of credit	31,653,250	(4,920,655)	26,732,595
Letters of guarantee	<u>34,432,783</u>	<u>(3,037,024)</u>	<u>31,393,759</u>
	<u>82,490,137</u>	<u>(8,501,380)</u>	<u>73,988,757</u>



36. REVENUES OF MURABAHA AND ISTISNA'A FINANCING TRANSACTIONS

	2007 YR'000's	2006 YR'000's
Revenues of local Murabaha transactions	5,471,350	4,153,376
Revenues of foreign Murahaba transactions	395,993	356,086
Revenues of Istisna'a transactions	695,792	374,327
	<u>6,563,135</u>	<u>4,883,789</u>

37. REVENUES OF OTHER JOINT INVESTMENTS

	2007 YR'000's	2006 YR'000's
Profits of investments in Mudaraba contracts	4,344,683	1,043,253
Profits of investments in Musharaka contracts	509,496	96,859
Profits from other investments	2,655,661	4,329,350
	<u>7,509,840</u>	<u>5,469,462</u>

38. COMMISSIONS AND FEES INCOME ON BANKING SERVICES

	2007 YR'000's	2006 YR'000's
Commissions on documentary credits	560,404	638,241
Commissions on letters of guarantee	272,749	251,167
Commissions on transfer of funds	94,400	98,674
Checks collection commissions	23,222	20,433
Banking services charges	313,306	236,154
Other fees and commissions	142,185	103,408
	<u>1,406,266</u>	<u>1,348,077</u>

39. GAINS (LOSSES) OF FOREIGN CURRENCY TRANSACTIONS

	Note	2007 YR'000's	2006 YR'000's
Gains from revaluation of balances in foreign currencies	3.1	1,134,340	1,017,749
(Losses) gains of dealing in foreign currencies		(31,192)	3,157
		<u>1,103,148</u>	<u>1,020,906</u>



40. PROVISIONS PROVIDED DURING THE YEAR

	Note	2007 YR'000's	2006 YR'000's
Murabaha provision	12	7,074	297,638
Mudarba provision	16	32,397	-
Contingent claims provision	30	350,546	180,150
End of service compensation provision		81,361	47,500
		<u>471,378</u>	<u>525,288</u>

41. GENERAL AND ADMINISTRATIVE EXPENSES AND DEPRECIATION

	Note	2007 YR'000's	2006 YR'000's
Wages and salaries		958,017	659,789
Depreciation	26	187,742	129,439
Stationary		44,859	34,226
Communications		43,589	30,533
Water and electricity		36,282	27,528
Rent		116,780	97,667
Repair and maintenance		39,475	25,840
Car expenses		10,554	7,925
Advertisement		102,318	42,718
Transportation		91,609	55,096
Insurance		20,385	14,038
Subscriptions and studies		84,735	56,052
Entertainment expenses		9,825	5,790
Professional fee		26,016	34,183
Cleaning expenses		35,080	29,108
Taxes and duties		14,463	8,976
Donations		239	472
Others		43,720	29,533
		<u>1,865,688</u>	<u>1,288,913</u>

42. EARNING PER SHARE

	2007	2006
Net profit for the year (YR'000's)	2,159,035	1,938,985
Board of Directors' remuneration (proposed / approved) (YR'000's)	(16,500)	(11,000)
Shareholders' share in profit (YR'000's)	2,142,535	1,927,985
Weighted average of number of shares (in thousands)	9,147	6,426
Earning per share	<u>YR 234</u>	<u>YR 300</u>



43. MATURITIES OF ASSETS AND LIABILITIES

	2007				
	Due within 3 months YR Million	Due from 3 to 6 months YR Million	Due from 6 months to one year YR Million	Due over one year YR Million	Total YR Million
a. Assets					
Cash on hand & reserve balances with CBY	16,191	10,784	6,142	4,457	37,574
Due from banks	9,683	7,096	6,407	3,123	26,309
Financing Murabaha transactions (net)	25,859	26,193	15,849	9,995	77,896
Financing Istisna' transactions (net)	1,630	2,681	2,925	1,294	8,530
Investments in Mudaraba contracts (net)	-	-	9,188	14,974	24,162
Investments in Musharka contracts (net)	80	134	1,298	4,135	5,647
Ijarah Muntahia Bittamleek	48	26	-	-	74
Investment property	-	-	4,993	6,329	11,322
Usufruct	-	-	-	8,274	8,274
Available for sale investments	-	-	-	16,453	16,453
Investments in subsidiaries and associates	-	-	-	3,820	3,820
Overdraft	<u>112</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>112</u>
	<u>53,603</u>	<u>46,914</u>	<u>46,802</u>	<u>72,854</u>	<u>220,173</u>
b. Liabilities					
Current accounts and other deposits	21,003	14,428	11,943	4,930	52,304
Unrestricted investment & saving accounts	26,432	39,509	34,612	46,813	147,366
Due to banks	<u>2,345</u>	<u>205</u>	<u>-</u>	<u>-</u>	<u>2,550</u>
	<u>49,780</u>	<u>54,142</u>	<u>46,555</u>	<u>51,743</u>	<u>202,220</u>
Net gap	<u>3,823</u>	<u>(7,228)</u>	<u>247</u>	<u>21,111</u>	<u>17,953</u>



2006

	Due within 3 months YR Million	Due from 3 to 6 months YR Million	Due from 6 months to one year YR Million	Due over one year YR Million	Total YR Million
a. Assets					
Cash on hand & reserve balances with CBY	12,633	2,842	7,017	6,445	28,937
Due from banks	24,684	1,072	3,541	-	29,297
Financing Murabaha transactions (net)	23,420	15,138	14,422	8,107	61,087
Financing Istisna' transactions (net)	1,808	960	1,454	-	4,222
Investments in Mudaraba contracts (net)	-	-	12,293	11,127	23,420
Investments in Musharka contracts (net)	-	-	384	1,162	1,546
Ijarah Muntahia Bittamleek	-	-	-	251	251
Investment property	-	-	602	3,994	4,596
Usufruct	-	-	-	10,507	10,507
Available for sale investments	-	-	-	13,321	13,321
Investments in subsidiaries and associates	-	-	-	3,828	3,828
Overdraft	162	-	-	-	162
	<u>62,707</u>	<u>20,012</u>	<u>39,713</u>	<u>58,742</u>	<u>181,174</u>
b. Liabilities					
Current accounts and other deposits	37,515	2,964	3,899	1,839	46,217
Unrestricted investment & saving accounts	19,079	16,111	43,202	41,420	119,812
Due to banks	44	-	-	-	44
	<u>56,638</u>	<u>19,075</u>	<u>47,101</u>	<u>43,259</u>	<u>166,073</u>
Net gap	<u>6,069</u>	<u>937</u>	<u>(7,388)</u>	<u>15,483</u>	<u>15,101</u>



44. DISTRIBUTION OF ASSETS, LIABILITIES, AND CONTINGENT LIABILITIES AND COMMITMENTS BASED ON ECONOMIC SECTORS

	2007						
	Financial YR Million	Manu- facturing YR Million	Trade YR Million	Construc- tion YR Million	Services YR Million	Individual & Others YR Million	Total YR Million
a. <u>Assets</u>							
Cash on hand & reserves balances with CBY	37,574	-	-	-	-	-	37,574
Due from banks	26,309	-	-	-	-	-	26,309
Financing Murabaha	4,822	17,965	40,372	9,499	3,157	2,081	77,896
Financing Istisna'a	-	8,467	-	-	-	63	8,530
Investments in Mudaraba	24,117	-	-	-	15	30	24,162
Investments in Musharka	5,647	-	-	-	-	-	5,647
Ijarah Muntahia Bittamleek	74	-	-	-	-	-	74
Investment property	4,993	-	-	6,329	-	-	11,322
Usufruct	8,274	-	-	-	-	-	8,274
Available for sale investments	16,453	-	-	-	-	-	16,453
Investments in subsidiaries and associates	326	952	49	2,493	-	-	3,820
b. <u>Liabilities</u>							
Current accounts and other deposits	-	19,967	14,276	2,479	2,597	12,985	52,304
Unrestricted investment accounts	798	2,161	16,538	-	24,113	103,756	147,366
c. <u>Contingent liabilities</u>							
L/Gs	6,019	11,024	5,991	2,164	4,902	-	30,100
L/Cs	6,004	8,715	6,287	-	-	-	21,006
L/Cs for Murabaha contracts	7,257	8,251	3,995	-	-	-	19,503



	2006						
	Financial YR Million	Manu- facturing YR Million	Trade YR Million	Construc- tion YR Million	Services YR Million	Individual & Others YR Million	Total YR Million
a. Assets							
Cash on hand & reserves balances with CBY	28,937	-	-	-	-	-	28,937
Due from banks	29,297	-	-	-	-	-	29,297
Financing Murabaha	5,912	14,424	20,218	7,179	11,511	1,843	61,087
Financing Istisna'a	-	4,148	-	-	-	74	4,222
Investments in Mudaraba	23,420	-	-	-	-	-	23,420
Investments in Musharka	1,546	-	-	-	-	-	1,546
Ijarah Muntahia Bittamleek	251	-	-	-	-	-	251
Investment property	4,596	-	-	-	-	-	4,596
Usufruct	10,507	-	-	-	-	-	10,507
Available for sale investments	13,321	-	-	-	-	-	13,321
Investments in subsidiaries and associates	-	952	2,592	-	284	-	3,828
b. Liabilities							
Current accounts and other deposits	-	14,114	13,414	-	2,597	16,092	46,217
Unrestricted investment accounts	794	-	10,889	-	23,712	84,417	119,812
c. Contingent liabilities							
L/Gs	8,271	14,556	4,822	2,679	4,105	-	34,433
L/Cs	19,004	12,649	-	-	-	-	31,653
L/Cs for Murabaha contracts	9,884	6,520	-	-	-	-	16,404



45. DISTRIBUTION OF ASSETS, LIABILITIES, AND CONTINGENT LIABILITIES AND COMMITMENTS BASED ON GEOGRAPHICAL LOCATIONS

2007						
	Republic of Yemen YR Million	United States of America YR Million	Europe YR Million	Asia YR Million	Africa YR Million	Total YR Million
a. Assets						
Cash on hand & reserve balances with CBY	37,574	-	-	-	-	37,574
Due from banks	8,118	1,467	3,563	9,904	3,257	26,309
Financing Murabaha transactions	73,212	-	4,684	-	-	77,896
Financing Istisna' transactions	8,530	-	-	-	-	8,530
Investments in Mudaraba contracts	45	-	292	13,713	10,112	24,162
Investments in Musharka contracts	-	-	1,578	4,069	-	5,647
Ijarah Muntahia Bittamleek	-	-	-	-	74	74
Investment property	6,329	-	-	4,807	186	11,322
Usufruct	-	-	-	8,274	-	8,274
Available for sale investments	-	142	2,297	9,955	4,059	16,453
Investments in subsidiaries and associates	3,594	-	-	-	226	3,820
b. Liabilities						
Current accounts and other deposits	52,304	-	-	-	-	52,304
Unrestricted investment & saving accounts	147,366	-	-	-	-	147,366

2006						
	Republic of Yemen YR Million	United States of America YR Million	Europe YR Million	Asia YR Million	Africa YR Million	Total YR Million
a. Assets						
Cash on hand & reserve balances with CBY	28,937	-	-	-	-	28,937
Due from banks	3,249	4,014	10,076	8,772	3,186	29,297
Financing Murabaha transactions	55,431	-	1,985	3,671	-	61,087
Financing Istisna' transactions	4,222	-	-	-	-	4,222
Investments in Mudaraba contracts	20	-	720	12,446	10,234	23,420
Investments in Musharka contracts	2	-	650	894	-	1,546
Ijarah Muntahia Bittamleek	-	-	-	-	251	251
Investment property	3,832	-	-	603	161	4,596
Usufruct	-	-	-	10,507	-	10,507
Available for sale investments	-	101	2,071	7,673	3,476	13,321
Investments in subsidiaries and associates	3,581	-	-	-	247	3,828
b. Liabilities						
Current accounts and other deposits	46,217	-	-	-	-	46,217
Unrestricted investment & saving accounts	119,812	-	-	-	-	119,812



46. SIGNIFICANT FOREIGN CURRENCIES' POSITIONS

To comply with CBY circular No. 6 of 1998, the bank establishes limits for positions in individual foreign currencies as well as an aggregate limitation for all currencies. These limits are 15% and 25% of capital and reserves respectively. The following schedule reflects the bank's significant foreign currencies positions at the balance sheet date.

	2007		2006	
	Surplus (deficit) YR 000's	% of capital & reserves	Surplus (deficit) YR 000's	% of capital & reserves
US Dollar	(1,894,610)	(11.4%)	(328,776)	(2.1%)
Saudi Rial	1,459,006	8.8%	647,314	4.2%
Euro	899,357	5.4%	258,487	1.7%
Sterling Pound	1,171,793	7.1%	302,872	2.0%
UAE Dirham	1,374,104	8.3%	1,027,696	6.7%
Japanese Yen	(52,287)	(0.3%)	(44,385)	(0.3%)
	<u>2,957,363</u>	<u>17.9%</u>	<u>1,863,208</u>	<u>12.2%</u>

47. 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.

The Bank deals with related parties on the same basis applied to third parties.

The Banks Law as implemented by CBY circular no. 4 of 1999, limits credit transactions with related parties and requires that the Bank should apply the same terms and conditions that are applied with unrelated parties.

The nature of the Bank's activity requires dealing with some of its shareholders, members of the board of directors and companies owned by them.

The following are the balances of these transactions on the balance sheet date:

	2007 YR Million	2006 YR Million
Direct and indirect financing	42,053	13,808
Current and saving accounts	33,871	7,468



48. TAXATION

- Income tax and salary tax are paid and cleared until the year 2005.
- The corporate tax has been settled in accordance with the Ministry of Finance Decree No. (7) of 2004 concerning self assessment on major taxpayers.

49. ZAKAT

The Bank has been cleared up to 2006.

50. COMPARATIVE FIGURES

Some comparative figures were reclassified to conform with this year financial statement classification for more appropriate presentation. Such reclassifications do not impact the previously reported net profit or shareholders' equity.

51. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by Board of Directors on March 3, 2008 and a Board resolution proposing the approval of the financial statements by the General Assembly of the shareholders was issued.



Branches Bank

Sana'a Branch (Head Quarter)

Address Al-Zubairi St., Al-Saeed Trading Bldg.
Tel. +967 1 203270
Fax +967 1 203271

Sana'a Branch

Address Sana'a - Al-Zubairi St.
Tel. +967 1 203270
Fax +967 1 203250

Hadah Branch

Address Hadah St., Sana'a
Tel. +967 1 505858
Fax +967 1 510223

Taiz St. Branch

Address Sana'a, Taiz St.
Tel. +967 1 600723
Fax +967 1 600718

Al- Hasaba Branch

Address Sana'a, Al - Hasaba - Al Kaida St .
Tel. +967 1 229035
Fax +967 1 229031

Hayel Branch

Address Sana'a, Al - Rebat St .
Tel. +967 1 535831
Fax +967 1 535834

Ibb Branch

Address Al-Odain St.
Tel. +967 4 407553
Fax +967 4 401243

Taiz Branch

Address Jamal St., Deluxe Hotel
Tel. +967 4 252817
Fax +967 4 252811

Hauodh Al-Ashraf Branch

Address Hauodh Al-Ashraf - Taiz
Tel. +967 4 230330
Fax +967 4 230376

Hodeidah Branch

Address Port St.
Tel. +967 3 208844
Fax +967 3 208877

Aden Branch

Address Al-Mualla
Tel. +967 2 240536
Fax +967 2 240520

Sheikh Othman Branch

Address Aden, Saila
Tel. +967 2 380781
Fax +967 2 380784

Bowaish Office

Address AL- Mukalla - Bowaish
Tel. +967 5 327050
Fax +967 5 327051

Shihar Branch

Address Hunain St., Omar Bin Maslem Bldg.
Tel. +967 5 332826
Fax +967 5 332021

Sayoon Branch

Address Sayoon-Arport St.
Tel. +967 5 405604
Fax +967 5 405241

Al-Qaten-Branch

Address AL-Qaten - General St.
Tel. +967 5 304741
Fax +967 5 304740

Tareem Branch

Address AL Tohy St.
Tel. +967 5 413777
Fax +967 5 413775

Ataq- Branch

Address General St.
Tel. +967 5 204588
Fax +967 5 204586

Amran Branch

Address General St.
Tel. +967 7 613090
Fax +967 7 613094

Dhamar Branch

Address General St.
Tel. +967 6 509623
Fax +967 6 509621

Crater Branch

Address Aden, Crater
Tel. +967 2 264131
Fax +967 2 264130

Al Mukalla Branch

Address Al Mukalla-Labour Area
Tel. +967 5 304741
Fax +967 5 304740

Bl Haf Office

Address Shabwa- Bl Haf
Tel. +967 5 211492
Fax +967 5 210941

Beit Baous Office

Address Beit Baous
Tel. +967 1 682112
Fax +967 1 682113

Web Site : www.tiib.com
E-mail: info@tiib.com

