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Consolidated financial statements and independent auditor's report

Tadhamon International Islamic Bank (Yemeni Closed Joint Stock Company)

December 31, 2012



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To: **THE SHAREHOLDERS' OF
TADHAMON INTERNATIONAL ISLAMIC BANK
(YEMENI CLOSED JOINT STOCK COMPANY)
SANA'A - REPUBLIC OF YEMEN**

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Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Tadhamon International Islamic Bank (Yemeni Closed Joint Stock Company) and its subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity, consolidated statement of cash flow, consolidated statement of changes in restricted investments and consolidated statement of sources and uses of Qard Hasan fund for the year then ended, and a summary of significant accounting policies and other explanatory notes (1-54).

Management's Responsibility for the Consolidated Financial Statements

The management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, the Accounting Standards for Islamic Financial Institutions, Central Bank of Yemen instructions and the Islamic Sharia'a principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing, the Audit Standards of the Islamic Financial Institutions and the applicable laws and regulations. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements

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



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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of **Tadhamon International Islamic Bank (Yemeni Closed Joint Stock Company)** and its subsidiaries as at December 31, 2012 and its consolidated financial performance, its consolidated cash flows and consolidated sources and uses of Qard Hasan fund for the year then ended in accordance with the International Financial Reporting Standards, Accounting Standards for Islamic Financial Institutions, Central Bank of Yemen' instructions and Islamic Sharia'a principles.

Report on Other Legal and Regulatory Requirements

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

Grant Thornton Yemen



Ramzi S. Al-Ariqi

Sana'a - Republic of Yemen
April 21, 2013



Consolidated Statement of Financial Position

December 31, 2012

	Notes	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Assets			
Cash on hand and reserve balances with Central Bank of Yemen	7	48,163,152	47,028,799
Due from banks and financial institutions	8	108,884,944	50,230,489
Murabaha contracts financing transactions, net	9	43,640,755	39,968,834
Istisna'a contracts financing transactions, net	11	8,747,274	11,300,094
Investments in Mudaraba contracts, net	13	28,579,889	24,188,905
Investments in Musharaka contracts, net	15	4,323,338	13,686,567
Ijarah Muntahia Bittamleek, net	17	157,119	305,867
Investments in real estate, net	19	120,176,175	115,512,736
Available for sale investments, net	20	37,650,958	42,692,874
Held - for - trading investments	21	2,931,386	868,377
Investments in Islamic Sukuk	22	30,391,308	1,148,575
Qard Hasan, net		3,762	233
Restricted investments		7,622,837	358,023
Debit balances and other assets, net	23	4,945,592	6,045,932
Property and equipment, net	25	3,894,673	4,802,345
Total assets		450,113,162	358,138,650
Liabilities, investments accounts' holders and shareholders' equity			
Liabilities			
Current accounts and other deposits	26	133,272,008	71,411,981
Due to banks and financial institutions	27	172,234	6,722,920
Credit balances of Murabaha		-	22,250
Credit balances and other liabilities	28	4,343,954	4,425,661
Other provisions	30	1,385,623	887,087
Total liabilities		139,173,819	83,469,899
Investments accounts' holders' equity			
Unrestricted investments and saving accounts' holders	31	242,177,759	212,437,860
Restricted investments accounts		7,622,837	358,023
Total investments accounts' holders' equity		249,800,596	212,795,883
Shareholders' equity			
Share capital	33	20,000,000	20,000,000
Statutory reserve	34	16,292,817	15,900,069
General reserve	35	261,246	261,246
Other reserves	36	23,688,716	25,753,811
Retained (deficit) earnings		-	(91,501)
Total equity attributable to equity holders of parent		60,242,779	61,823,625
Non-controlling interest		895,968	49,243
Total shareholders' equity		61,138,747	61,872,868
Total liabilities, investments accounts' holders and shareholders' equity		450,113,162	358,138,650
Contingent liabilities and commitments, net	37	49,521,043	66,271,325
Total contingent liabilities and commitments		49,521,043	66,271,325

Financial Manager

General Manager

Chairman

Mr. Basheer Sultan AL- Maqtari

Mr. Mahmoud Ata AL-Rifae

Mr. Abdul Jabbar Hayel Saeed

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2012

	Notes	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Revenue of Murabaha and Istisna'a financing transactions	38	6,301,249	7,395,593
Revenue from other joint investments	39	20,658,695	10,001,045
		26,959,944	17,396,638
Less:			
Return on unrestricted investments and saving accounts		(14,160,821)	(11,757,264)
		12,799,123	5,639,374
Commissions and bank services charges revenue	40	1,794,731	1,941,364
Less: Commissions expenses and bank service charges		(50,890)	(46,345)
Foreign currencies exchange (loss)	41	(2,530,135)	(1,296,981)
Gain on investments in associates		-	28,387
Unrealized (loss) on held for trading investments		-	108,382
Impairment of available for sale investments		(2,456,715)	(341,593)
Gains on sale of property and equipment		240,774	-
Other operating income	42	439,860	446,485
Operating profit		10,236,748	6,479,073
Less:			
Provisions	43	(1,110,437)	(2,871,126)
General and administrative expenses and depreciation	44	(6,626,364)	(5,433,871)
Net profit (loss) for the year		2,499,947	(1,825,924)
Attributable to:			
Equity holders of the parent		2,482,566	(1,826,636)
Non-controlling interest		17,381	712
Net profit (loss) for the year		2,499,947	(1,825,924)
Earning (loss) per share	45	125	(91.3)
Net profit (loss) for the year		2,499,947	(1,825,924)
Net change of fair value:			
Available for sale investments	36	331,151	2,190,603
Investments in real estate	36	3,585,050	11,331,956
Total comprehensive income for the year		3,916,201	13,522,559
Attributable to:			
Equity holders of the parent		3,915,053	13,521,847
Non-controlling interest		1,148	712
		3,916,201	13,522,559

Financial Manager

General Manager

Chairman

Mr.Basheer Sultan AL- Maqtari

Mr.Mahmoud Ata AL-Rifae

Mr.Abdul Jabbar Hayel Saeed

Consolidated Statement of Changes in Shareholders' Equity

For the year ended December 31, 2012

	Paid-Up Capital YR 000s	Statutory Reserve YR 000s	General Reserve YR 000s	Other Reserve YR 000s	Retained (Deficit) Earnings YR 000s	Equity Attributable to Equity Holders of Parent YR 000s	Non- Controlling Interest YR 000s	Total YR 000s
For the year ended Dec. 31, 2012								
Balance at January 1, 2012	20,000,000	15,900,069	261,246	25,753,811	(91,501)	61,823,625	49,243	61,872,868
Non-controlling interest - Tadhamon Capital	-	-	-	-	-	-	859,560	859,560
Net movement in fair value reserve	-	-	-	3,916,201	-	3,916,201	-	3,916,201
Net movement in foreign currencies revaluation differences	-	-	-	-	1,683	1,683	(30,216)	(28,533)
Net profit for the year	-	-	-	-	2,482,566	2,482,566	1,149	2,483,715
Profit non-controlling interest - Tadhamon Capital	-	-	-	-	(2,000,000)	(2,000,000)	16,232	16,232
Dividends to shareholders	-	-	-	-	(392,748)	-	-	(2,000,000)
Transferred to reserves	-	392,748	-	-	-	-	-	-
Impairment in reserve	-	-	-	(5,981,296)	-	(5,981,296)	-	(5,981,296)
Balance at December 31, 2012	20,000,000	16,292,817	261,246	23,668,716	-	60,242,779	895,968	61,138,747
For the year ended Dec. 31, 2011								
Balance at January 1, 2011	20,000,000	15,900,069	982,000	12,231,252	1,735,135	50,848,456	48,531	50,896,987
Net movement in fair value reserve	-	-	-	13,522,559	-	13,522,559	-	13,522,559
Net movement in foreign currencies revaluation differences	-	-	-	-	-	-	-	-
Net loss for the year	-	-	(720,754)	-	(1,826,636)	(1,826,636)	712	(1,825,924)
Dividends to shareholders	-	-	-	-	-	(720,754)	-	(720,754)
Balance at December 31, 2011	20,000,000	15,900,069	261,246	25,753,811	(91,501)	61,823,625	48,243	61,872,868

Financial Manager

Mr. Basheer Sultan AL- Maqtari

General Manager

Mr. Mahmoud Ata AL-Rifae

Chairman

Mr. Abdul Jabbar Hayel Saeed

Consolidated Statement of Cash Flows

For the year ended December 31, 2012

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Cash flows from operating activities:		
Net profit (loss) for the year	2,499,947	(1,825,924)
Adjustments to reconcile net (loss) profit to cash flows from operating activities		
Depreciation of property and equipment	499,158	511,233
Provisions	2,389,858	2,871,126
Provision for end of service compensation	8,585	296,847
Net (gains) losses on sale of property and equipment	(240,774)	6,108
Transfer to statutory reserve	(392,748)	-
Losses on revaluation of held - for - trading investments	-	(108,382)
Impairment of available for sale investments	2,456,715	341,593
Unrealized gain from impairment of investments in real estate	5,981,196	-
Provisions used	(786,863)	(7,075,478)
Provisions reversed	(1,623,425)	(293,091)
Foreign currencies revaluation differences	1,684	-
Revaluation differences of property and equipment by foreign currencies	888	332,251
Return of unrestricted investments and saving accounts	14,160,821	11,757,264
Operating profit before changes in assets and liabilities related to operating activities	24,955,042	6,813,547
(Increase) decrease in reserve balances with CBY	(985,185)	12,531,551
(Increase) decrease in Qard Hasan	(3,529)	15,940
Decrease in debit balances and other assets	1,100,339	730,143
(Decrease) increase in credit balances and other liabilities	(81,707)	905,805
Net cash flows from operating activities (1)	24,984,960	20,996,986
Cash flows from investing activities:		
(Increase) decrease in Murabaha contracts financing transactions	(3,008,078)	33,223,807
Decrease (increase) in Istisna'a contracts financing transactions	2,607,325	(3,172,547)
Increase in investments in Mudaraba contracts	(3,954,074)	(1,988,411)
Decrease in Ijarah Muntahia Bittamleek	148,070	227,132
Decrease (increase) in investments in Musharaka contracts	8,719,030	(2,505,354)
(Increase) decrease in investments in real estate	(10,644,635)	5,627,939
(Increase) decrease in held-for-trading investments	(2,063,009)	741,325
Proceeds from sale property and equipment	1,489,763	53,475
Decrease in credit balances of Murabaha	(22,250)	(799,513)
Decrease (increase) in available for sale investments	2,585,201	(1,320,741)
Decrease in investments in associates	-	61,761
Increase in investments in Islamic Sukuk	(29,242,733)	(1,148,575)
(Increase) decrease in deposits with financial institutions	(3,357,959)	3,460,780
Purchases of property and equipment	(841,363)	(707,337)
Net cash flows (used in) from investing activities (2)	(37,584,712)	31,753,741

Consolidated Statement of Cash Flows (Continued)

For the year ended December 31, 2012

	Notes	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
<u>Cash flow from financing activities:</u>			
Increase in statutory reserve		392,748	-
Decrease in other reserves		(2,065,095)	-
Increase (decrease) in unrestricted investments and saving accounts		29,739,899	(27,924,840)
Increase (decrease) in current account and other deposits		61,860,027	(11,203,826)
(Decrease) increase in due to banks and financial institutions		(6,550,686)	6,685,240
Profits of non-controlling interest		829,344	-
Dividends paid to depositors		(14,160,821)	(11,757,264)
Dividends paid to shareholders and Board of Directors		(2,000,000)	(720,754)
Net cash flows from (used in) financing activities (3)		68,045,416	(44,921,444)
Net change in cash and cash equivalents(1+2+3)		55,445,664	7,829,283
Cash and cash equivalents at January 1		51,605,047	43,775,764
Cash and cash equivalents at December 31		107,050,711	51,605,047
<u>Cash and cash equivalents consist of:</u>			
Cash on hand and balances at CBY, other than reserve		69,958,817	28,220,344
Due from banks and financial institutions maturing within 3 months		37,091,894	23,384,703
		107,050,711	51,605,047

Financial Manager

Mr.Basheer Sultan AL- Maqtari

General Manager

Mr.Mahmoud Ata AL-Rifae

Chairman

Mr.Abdul Jabbar Hayel Saeed

Consolidated Statement of Change in Restricted Investments

For the year ended December 31, 2012

	Trade in Real estate		Total	
	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Investments as at December 31	7,622,837	358,023	7,622,837	358,023
Number of units as at December 31	3	1	3	1

Financial Manager

Mr.Basheer Sultan AL- Maqtari

General Manager

Mr.Mahmoud Ata AL-Rifae

Chairman

Mr.Abdul Jabbar Hayel Saeed

Consolidated Statement of Sources and Uses of Qard Hasan Fund

For the year ended December 31, 2012

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Balance as at January 1:		
Outstanding utilized loans	233	21,480
Add: Sources of Qard Hasan Fund		
Transfer from customers' current accounts	4,367	5,494
Less: Uses of Qard Hasan Fund		
Payment to customers' current accounts	(800)	(26,741)
	3,800	233
Balance as at December 31:		
Outstanding utilized loans	3,800	233
Less: Qard Hasan fund provision	(38)	-
	3,762	233

The following shows the transactions of Qard Hasan provision:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Balance as at January 1	-	5,307
Provided during the year	(38)	-
Provision reversed	-	(5,307)
Balance as at December 31	(38)	-

Financial Manager

General Manager

Chairman

Mr.Basheer Sultan AL- Maqtari

Mr.Mahmoud Ata AL-Rifae

Mr.Abdul Jabbar Hayel Saeed

Notes to the Financial Statements

For the year ended December 31, 2012

1. Background

Tadhamon International Islamic Bank (the Bank) - a Yemeni closed 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 Extraordinary General Assembly 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 (23) branches all over the Republic of Yemen, in addition to the subsidiaries inside and outside Yemen as follows:

Subsidiaries name	Percentage of equity	
	2012	2011
Tadhamon Capital B.S.C - Bahrain	99.9%	99.9%
Tadhamon Real Estate Ltd.-Yemen	95%	95%
Al-Wedad for Trading and Investment - Yemen	95%	95%

The financial statements for the year ended December 31, 2012 (including comparatives) were approved and authorized for issue by the Board of Directors on April 23, 2013. The board suggests to approve the financial statements by the shareholders general assembly.

2. Preparation basis of the consolidated financial statements

The consolidated financial statements and all subsidiaries financial statements are prepared and presented in accordance with Accounting Standards for Islamic Financial Institutions, and also in accordance with International Financial Reporting Standards and instructions issued by CBY.

3. Changes in accounting policies

3.1 Adoption of "Presentation of Items of Other Comprehensive Income" (Amendments to IAS 1)

The Bank has early adopted "Presentation of Items of Other Comprehensive Income" (Amendments to IAS 1). The Amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012 and require entities to group items presented in other comprehensive income (OCI) into those that, in accordance with other IFRSs, will not be reclassified subsequently to profit or loss and those that will be reclassified subsequently to profit or loss when specific conditions are met. The existing option to present items of OCI either before tax or net of tax remains unchanged; however, if the items are presented before tax, then the Amendments to IAS 1 require the tax related to each of the two groups of OCI to be shown separately.

3.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank

At the date of authorizations of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Bank (except for the Amendments to IAS 1 noted above in 3.1). Management anticipates that all of the relevant pronouncements will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Bank's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Bank's financial statements.

IFRS 9 'Financial Instruments' (IFRS 9)

The IASB aims to replace IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning on or after January 1, 2015. Chapters dealing with impairment methodology and hedge accounting are still being developed. Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address application issues. The Bank's management have yet to assess the impact of this new standard on the Bank's financial statements. However, Management does not expect to implement IFRS 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.

IFRS 13 'Fair Value Measurement' (IFRS 13)

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. IFRS 13 applies prospectively for annual periods beginning on or after January 1, 2013. Management is in the process of assessing their impact on the Bank's financial statements.

Amendments to IAS 19 'Employee Benefits' (IAS 19 Amendments)

The IAS 19 Amendments include a number of targeted improvements throughout the Standard. The main changes relate to defined benefit plans. The IAS 19 Amendments are effective for annual periods beginning on or after January 1, 2013 and will apply retrospectively.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The Amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- The meaning of "currently has a legally enforceable right of set-off"
- That some gross settlement systems may be considered equivalent to net settlement.

The Amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively. Management does not anticipate a material impact on the Bank's financial statements from these Amendments

Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

Qualitative and quantitative disclosures have been added to IFRS 7 'Financial Instruments: Disclosures' (IFRS 7) relating to gross and net amounts of recognised financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position. The Amendments are effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods. The required disclosures should be provided retrospectively. Management does not anticipate a material impact on the Bank's financial statements from these Amendments.

Annual Improvements 2009-2011 (the Annual Improvements)

The Annual Improvements 2009-2011 (the Annual Improvements) made several minor amendments to a number of IFRSs. The amendments relevant to the Bank are summarised below:

- **Clarification of the requirements for opening statement of financial position:**
 - clarifies that the appropriate date for the opening statement of financial position is the beginning of the preceding period (related notes are no longer required to be presented).
 - addresses comparative requirements for the opening statement of financial position when an entity changes accounting policies or makes retrospective restatements or reclassifications, in accordance with IAS 8.
- **Clarification of the requirements for comparative information provided beyond minimum requirements:**
 - clarifies that additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum requirements.
 - Requires that any additional information presented should be presented in accordance with IFRS and the entity should present comparative information in the related notes for that additional information.
- **Tax effect of distribution to holders of equity instruments:**
 - Addresses a perceived inconsistency between IAS 12 'Income Taxes' (IAS 12) and IAS 32 'Financial Instruments: Presentation' (IAS 32) with regards to recognizing the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction.
 - Clarifies that the intention of IAS 32 is to follow the requirements in IAS 12 for accounting for income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction.
- **Segment information for total assets and liabilities:**
 - clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if: (i) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision maker; (ii) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment.

The Annual Improvements noted above are effective for annual periods beginning on or after January 1, 2013. Management does not anticipate a material impact on the Bank's financial statements from these Amendments.

4. Significant accounting policies

4.1 Accounting convention

The consolidated financial statements are prepared on a going concern basis and accordance to the historical cost basis, except available-for-sale investments, investments in real estate and financial instruments (financial assets and liabilities) held at fair value, and in accordance with Accounting Standards for Islamic Financial Institutions, and instructions issued by CBY.

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

4.2 Consolidate financial statements

The consolidated financial statements comprise the financial statements of the Bank and the entities controlled by (subsidiaries). The control is achieved when the Bank has the authority to control the financial and operating policies of the subsidiary.

The consolidated financial statements included all balances of assets, liabilities and results of operation of subsidiaries after eliminating all balances and transactions and statement of comprehensive income items which result from intra-group transactions.

The consolidated financial statements Non-controlling interests represent the portion of profit and loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated financial statements and within equity in the consolidated statement of financial position, separately from the parent shareholders' equity.

4.3 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 agree 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 Murabaha and Istisna'a contracts or contingent liabilities, in addition to a percentage for general risk calculated on the total investments of Murabaha and Istisna'a contracts 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:

Performing debts including watch list	1%
Non - performing debts	
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 statement of financial position net of related provisions (non performing debts provision and general risk provision on performing debts), and deferred revenues.

4.4 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 consolidated statement of comprehensive income.

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 investments 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:

Performing debts including watch list	1%
Non - performing debts	
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 statement of comprehensive income.

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

4.5 Ijarah Muntahia Bittamleek

Assets acquired for 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 instalments are settled by the lessee.

4.6 Valuation of investments in real estate

Investments in real estate are treated as a portfolio. After initial recognition, investments in real estate are subsequently measured at fair value (instead of the cost less impairment losses in accordance with CBY instructions). Unrealized gain or losses arising from a change in the fair value are recognized in the fair value reserve under equity to the extent of the available balance of the reserve. In case such losses exceed the available balance, the unrealized losses are recognized in the statement of comprehensive income under "unrealized re measurement gain or losses on investments", and when the investment is sold the cumulative gain or loss previously recognized in equity is included in the consolidated statement of comprehensive income.

In cases there are unrealized losses that have been recognized in the statement of comprehensive income in a previous financial period as a result of where objective evidence exists that a specific investment is impaired, the unrealized gain related to the current financial period shall be recognized to the extent of crediting back such previous losses in the statement of comprehensive income. Any excess of such gain over such prior-period losses shall be added to the investments fair value reserve in the statement of financial position. A significant or prolonged decline in the fair value below its cost is an objective evidence of impairment.

4.7 Valuation of available for sale investments

After initial recognition of available for sale investments, they are subsequently measured at fair value individually. Unrealized gains or losses arising from a change in the fair value are recognized directly in the fair value reserve under equity (instead of statement of comprehensive income in accordance with CBY instructions) until the investment is sold, at which time the cumulative gain or loss previously recognized in equity is included in the consolidated statement of comprehensive income.

In cases there are unrealized losses that have been recognized in the statement of comprehensive income in a previous financial period as a result of where objective evidence exists that a specific investment is impaired, the unrealized gain related to the current financial period shall be recognized to the extent of crediting back such previous losses in the statement of comprehensive income. Any excess of such gain over such prior-period losses shall be added to the investments fair value reserve in the statement of financial position. A significant or prolonged decline in its fair value below its cost is an objective evidence of impairment. In case that reliable estimate of the fair value of these investments cannot be obtained due to lack of either quoted market prices or tangible stability in its prices and also cannot be determined with sufficient accuracy, as future cash flow are not determinable, these investments were carried at cost.

4.8 Valuation of held-for-trading investments

The investments which were held for trading are recorded at cost on the acquisition date in the financial statement date shall be re-measured at fair value. The differences are taken to the statement of comprehensive income.

4.9 Valuation of investments in associates

Investments in associates which the Bank has significant influence over are recorded at acquisition cost. At the consolidated financial statements date, these investments are adjusted according to the Bank's share in the equity of associates based on the approved financial statements of these companies. This adjustment is taken to the statement of comprehensive income.

4.10 Investments in Islamic (Sukuk)

Investments in Islamic Sukuk are recognized at the historical cost, in cases of other than temporary decline in the value of these investments at the end of year the investments in Sukuk recognized at the nominal value and the losses resulting from that decline are recorded in the comprehensive income.

In the maturity investments date in Islamic Sukuk the difference between book value (carrying value) and the returned amount are recorded in the comprehensive income.

4.11 Valuation of restricted investments

Murabaha transactions financed by restricted investment accounts are recorded on the same valuation basis mentioned above (Note nos. 4.3 and 4.4) with related profits (losses) and provisions taken to restricted investment accounts net of the Bank's share for managing these investments.

4.12 Valuation of assets for which titles have been transferred to the Bank

Assets for which titles have been transferred to the Bank are recorded in the statement of financial position 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 consolidated statement of comprehensive income, in case of increase on these assets the difference are recognized in the consolidated statement of comprehensive income to the extent of impairment previously recognized.

4.13 Property and equipment

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

	<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

4.14 Impairment of assets

The Bank reviews the carrying amounts of the assets, according to its materiality, at the financial statements 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 consolidated statement of comprehensive income.

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

4.15 Lease Contractss

Leases are classified as finance lease whereby the terms of the contract transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease . all the leases concluded by the Bank are operating leases.

Rental's payable under theses lease contracts are charged to the income statement on a straight-line basis over the term of the lease.

4.16 Other provisions

A provision is provided for present legal or constructive obligations as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation based on the study prepared by the Bank in order to estimate the amount of the obligation.

4.17 End of service benefit

End of service benefit for uninsured Bank employees is calculated at 9% of last gross salary for each complete month of service. The accrued benefit is included in other provisions.

4.18 Taxation

For the Group operations inside Yemen, the taxes are calculated in accordance with the prevailing laws and regulations in the Republic of Yemen.

For the Group operations outside Yemen, taxes are calculated based on tax laws and regulations in other countries in which the Group operates.

Provision for tax liabilities is made after conducting the necessary studies and in consideration of tax assessments.

4.19 Contingent liabilities and commitments

Contingent liabilities and commitments, in which the Bank is a party, are presented off consolidated financial position, net of margin held from customers, under "contingent liabilities and commitments" as they do not represent actual assets or liabilities at the consolidated financial statements date.

4.20 Cash flows statement

The bank follows the indirect method in the presentation of the cash flow statement where there is adjusted to net profit or loss with net available funds from or used in operation, investment, and finance activities.

4.21 Cash and cash equivalents

For the purpose of preparing the consolidated cash flow statement, cash and cash equivalents consist of cash on hand, cash balances at banks, other than reserve balance at CBY, and balances of current accounts at banks due within three months.

4.22 Revenue recognition

a. Revenue of Murabaha and Istisna'a Contracts Financing transactions

1. 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 statement of comprehensive income, depending on the finance percentage, using the straight line method over the term of contract.
2. The non-performing Murabaha contracts profit haven't been recorded in the comprehensive income statement to agree with instructions to the Central Bank of Yemen.

b. Revenue of Investments in Mudaraba and Musharaka contracts

Profits on investments in Mudaraba and Musharaka contracts, which initiate and terminate during the financial year, are recorded in the consolidated statement of comprehensive income in the date of liquidation for Mudaraba and Musharaka contracts.

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. Revenue of Commissions' revenues and bank services

Commissions' revenues and bank services charges are recognized as the related services are performed.

d. Revenue of Investments in associates

Revenue from investments in associates are recorded based on the Bank's share in the equity of these companies in accordance with the approved financial statements of these companies.

e. Revenue of Available for sale investments

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

f. Revenue of Ijarah Muntahia Bittamleek

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

g. Islamic Sukuk

Sukuk revenue is recorded in the statement of comprehensive income in the advertising date distributed by the party that has issued these Sukuk.

4.23 Prohibited revenues

Revenues prohibited by Islamic Sharia'a are recorded in a separate account under "Credit balances and other liabilities". They are utilized in the areas approved by the Bank's Sharia' Board.

4.24 Profits distribution between holders of unrestricted investment account and shareholders

In this regard, the Bank follows a policy summarized as follows:

- Profit realized from financing revenues and Sukuk and deposits investment returns during the year represents the net profit available for distribution among shareholders and holders of unrestricted investment accounts.
- The holders of unrestricted investment accounts net share of profit is calculated based on daily balances for deposits during the fiscal year after deducting the financing provision, and the agreed and announced Bank's share of Mudaraba.

In order not to mix between the funds related to holders of unrestricted investment account with the Bank's money for the purpose of investment, priority is given to holders of unrestricted investment accounts in profits distribution.

4.25 Foreign currencies transactions

Functional currency for the group

The Bank maintains its accounting records in Yemeni Rial, (presentation currency).

Foreign currencies translations

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 statement of comprehensive income.

The assets and liabilities of the subsidiaries at the consolidated financial statements date are translated into Yemeni Rial (presentation currency) at the prevailing exchange rates at that date. The income and expenses of these subsidiaries are translated at the average exchange rates during the year. Exchange differences arising on translation are taken directly to other reserves within shareholders' equity.

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.

4.26 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.

4.27 Sharia'a board

The Group's activities are subject to the supervision of the Sharia'a 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.

4.28 Zakat

Zakat is computed according to the directions of the Sharia'a 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.

5. Financial instruments and managing their related risks

5.1 Financial instruments

- a. The Group'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, investment property, Ijarah Muntahia Bittamleek, financial investments, investments in associates and investments in Islamic Sukuk. 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 (4) to the consolidated financial statements includes significant accounting policies applied for recording and measuring significant financial instruments and their related revenues and expenses.

- b. The fair value of financial assets traded in organized financial markets is determined by reference to quoted market bid prices on a regulated exchange at the close of business on the year-end date. For financial assets where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same. Where it is not possible to arrive at a reliable estimate of the fair value, the financial assets are carried at cost until sometime reliable measure of the fair value is available. The following table provides a comparison by class of the carrying amount and fair values of the Bank's financial instruments that are carried in the financial statements.

The table does not include the fair values of non-financial asset and non-financial liabilities.

	Net Book Value YR 000s	Dec. 31, 2012 Net Fair Value YR 000s	Net Book Value YR 000s	Dec. 31, 2011 Net Fair Value YR 000s
Financial asset				
Cash on hand and reserve balance with the CBY	48,163,152	48,163,152	47,028,799	47,028,799
Due from banks and financial institutions	108,884,944	108,884,944	50,230,489	50,230,489
Murabaha contracts financing transactions, net	43,640,755	43,640,755	39,968,834	39,968,834
Istisna'a contracts financing transactions, net	8,747,274	8,747,274	11,300,094	11,300,094
Investments in Mudaraba contracts, net	28,579,889	28,579,889	24,188,905	24,188,905
Investments in Musharaka contracts, net	4,323,338	4,323,338	13,686,567	13,686,567
Ijarah Muntahia Bittamleek, net	157,119	157,119	305,867	305,867
Investments in real estate, net	120,176,175	120,176,175	115,512,736	115,512,736
Available for sale investments, net	37,650,958	37,650,958	42,692,874	42,692,874
Held-for-trading investments	2,931,386	2,931,386	868,377	868,377
Investments in Islamic Sukuk	30,391,308	30,391,308	1,148,575	1,148,575
Qard hasan, net	3,762	3,762	233	233
Restricted investments	7,622,837	7,622,837	358,023	358,023
Financial liabilities				
Current accounts and other deposits	133,272,008	133,272,008	71,411,981	71,411,981
Due to banks and financial institutions	172,234	172,234	6,722,920	6,722,920
Unrestricted investments and saving accounts	242,177,759	242,177,759	212,437,860	212,437,860

c. Fair Value Hierarchy:

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

- Level 1: Fair values are based on quoted prices (unadjusted) in active markets for identical assets.
 Level 2: Fair values are based on inputs other than quoted prices included within level 1 that are observable for the assets either directly (i.e. as price) or indirectly (i.e. derived from prices).
 Level 3: Fair values are based on inputs for assets that are not based on observable market data.

d. Financial instruments for which fair value approximates carrying value:

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

5.2 Risk management of financial instruments

Risk is inherent in the Group'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 Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

Information compiled from all businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors (ultimately responsible for identifying and controlling risks), the risk committee, and the head of each business division.

The Group is exposed to credit risk, liquidity risk, interest rate risk, currency risk, operating risk and other risks.

a. Credit risk

Financing of Murabaha, Istisna'a, Mudaraba, Musharaka transactions and Ijarah Muntahia Bittamleek and their related debts, current accounts, deposits with banks and financial investments 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 circular No. 10 of 1997 regarding the credit risk exposure, the Group 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 financial position. The maximum exposure is shown gross, before the effect of mitigation by the use of collateral agreements:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Cash on hand and reserve balances CBY (excluding cash on hand and ATM)	30,701,282	29,716,097
Due from banks and financial institutions	108,884,944	50,230,489
Murabaha financing transactions, net	43,640,755	39,968,834
Istisna'a financing transactions, net	8,747,274	11,300,094
Investments in Mudaraba contracts, net	28,579,889	24,188,905
Investments in Musharaka contracts, net	4,323,338	13,686,567
Ijarah Muntahia Bittamleek, net	157,119	305,867
Investments in real estate, net	120,176,175	115,512,736
Available for sale investments, net	37,650,958	42,692,874
Held-for-trading investments	2,931,386	868,377
Investments in Islamic Sukuk	30,391,308	1,148,575
Qard hasan, net	3,762	233
Restricted investments	7,622,837	358,023
Debit balances and other assets	4,945,593	6,045,932
	428,756,620	336,023,603
Contingent liabilities and commitments	49,521,042	66,271,325
Total credit exposure	478,277,662	402,294,928

The Group manages concentration of risk by distributing the portfolio and contingent liabilities and commitments over diversified economic sectors and geographical locations. Note no. 47 shows the distribution of assets, liabilities, contingent liabilities and commitment based on economic sectors and Note no. 48 shows the distribution of financial instruments based on geographical locations at the financial statement date.

b. Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations when they fall due and other risks related to sufficient liquidity without incurring losses on timely basis. To limit this risk, the Group'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 remaining contractual maturities:

Liabilities	Less than 3 Months YR 000s	From 3 Months to 6 Months YR 000s	2012		Total YR 000s
			From 6 Months to 1 Year YR 000s	Over 1 Year YR 000s	
Due to banks and financial institutions	172,234	-	-	-	172,234
Current accounts and other deposits	40,521,469	48,967,851	24,422,527	19,360,161	133,272,008
Unrestricted investments and saving account's Holders	47,661,479	61,315,007	75,936,719	57,264,554	242,177,759
Restricted investments	-	-	-	7,622,837	7,622,837
Total liabilities	88,355,182	110,282,858	100,359,246	84,247,552	383,244,838

Liabilities	Less than 3 Months YR 000s	From 3 Months to 6 Months YR 000s	2011		Total YR 000s
			From 6 Months to 1 Year YR 000s	Over 1 Year YR 000s	
Due to banks and financial institutions	6,722,920	-	-	-	6,722,920
Current accounts and other deposits	22,602,332	27,883,239	10,310,000	10,615,410	71,411,981
Unrestricted investments and saving account's Holders	43,661,744	58,132,769	58,213,276	52,439,071	212,446,860
Restricted investments	-	-	358,023	-	358,023
Total liabilities	72,986,996	86,016,008	68,881,299	63,055,481	290,939,784

In addition to the above, Note no. (46) shows the maturity analysis of assets and liabilities and the net gap between them at the consolidated financial statements compared with last year.

c. Return rate risk

Return due on unrestricted investments 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 investments and saving accounts holders. Therefore, the bank is not exposed, directly, to the risk of change in return rate.

Note no. 31 shows the average allocation of investment and saving accounts return rate during the year compared with the last year.

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 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:

	US dollar YR 000s	EURO YR 000s	2012 Saudi Rial YR 000s	Sterling Pound YR 000s	UAE Dirham YR 000s	Bahrain Dinar YR 000s
Assets	141,445,506	2,583,566	76,520,528	4,289,559	33,737,313	6,680,957
Liabilities	126,614,446	2,854,937	68,400,179	450,992	256,115	-
Net currency position	14,831,060	(271,371)	10,120,349	3,838,567	33,481,198	6,680,957

	Japanese YEN YR 000s	Kuwaiti Dinar YR 000s	2012 Swissair Frank YR 000s	Sudanese Pound YR 000s	Jordanian Dinar YR 000s	Total YR 000s
Assets	46,743	1,639,582	195,017	390,166	308,703	267,837,640
Liabilities	1,018	-	63,443	-	-	196,641,130
Net currency position	45,725	1,639,582	131,574	390,166	308,703	71,196,510

	US dollar YR 000s	EURO YR 000s	2011 Saudi Rial YR 000s	Sterling Pound YR 000s	UAE Dirham YR 000s	Bahrain Dinar YR 000s
Assets	142,875,156	6,138,940	37,590,322	3,368,927	32,534,445	6,647,315
Liabilities	129,791,289	2,927,097	17,601,634	392,618	171,440	-
Net currency position	13,083,867	3,211,843	19,988,688	2,976,309	32,363,005	6,647,315

	Japanese YEN YR 000s	Kuwaiti Dinar YR 000s	2011 Swissair Frank YR 000s	Sudanese Pound YR 000s	Jordanian Dinar YR 000s	Total YR 000s
Assets	114,032	1,707,653	22,573	6,116,546	310,574	237,426,483
Liabilities	58,868	-	458	-	-	150,943,404
Net currency position	55,164	1,707,653	22,115	6,116,546	310,574	86,483,079

Note 49 to the consolidated financial statements indicate the significant foreign currencies' positions at the financial statements date compared with the last year.

e. Operational risk

Operational risk is the risk of direct or indirect loss due to an event or action causing failure of technology, process or personnel. The Group seeks to minimize actual or potential losses from operational risks failure through a framework of policies and procedures that identify, assess, control, manage and report those risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

f. Other risks

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

6. Capital management

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on banking supervision and the instructions adopted by the CBY.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and the Group maintains strong credit ratings and excellent capital ratios in order to support its business and to maximize shareholders' value. 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%.

The capital adequacy ratio calculated compares between the core and supplementary capital with risk weighted total assets and liabilities at the consolidated financial statements date, is as follows:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Core capital	36,554	32,140
Supplementary capital	1,142	1,243
Total capital	37,696	33,383
Risk-weighted assets and liabilities:		
Total assets	236,352	247,849
Contingent liabilities and commitments	22,615	24,677
Total risk-weighted assets and liabilities	258,967	272,526
Capital adequacy ratio	14.56%	12.25%

The core capital consists of paid-up capital, reserves (statutory and general) and retained earnings or deficits (after deducting investment in any local bank or financial company) while supplementary capital consists of general provisions on performing debts with percentage 1% which should not exceed more than 2% of risk weighted assets.

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

This item consists of the following as of December 31:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Cash on hand and ATM machines - local currency	6,302,724	5,004,826
Cash on hand and ATM machines - foreign currency	11,159,146	12,307,876
	17,461,870	17,312,702
Reserve balances at CBY - local currency	11,755,720	9,592,813
Reserve balances at CBY - foreign currency	18,945,562	20,123,284
	30,701,282	29,716,097
	48,163,152	47,028,799

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

In accordance with CBY Circular No. (1) of 2008, the percentage of reserve balances held at CBY on Yemeni Rail customer accounts was reduced from 10% (return bearing) to 7% (non-return bearing). The percentage of reserve balances on foreign currency customer accounts was reduced from 20% (non-return bearing) to 10% (non-return bearing).

8. Due from banks and financial institutions

This item consists of the following as of December 31:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Central Bank of Yemen		
Current account - local currency	46,810,336	6,107,290
Current account - foreign currency	5,686,611	4,800,352
	52,496,947	10,907,642
Foreign Banks		
Current account	37,091,894	23,384,703
Deposits with Islamic financial institutions	19,296,103	15,938,144
	56,387,997	39,322,847
	108,884,944	50,230,489

9. Murabaha contracts financing transactions, net

This item consists of the following as of December 31:

	Note	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Murabaha contracts financing transactions		48,389,981	45,063,073
Less: Murabaha financing transactions provision	10	(2,839,198)	(3,503,041)
Less: Deferred revenues		(1,910,028)	(1,591,198)
		43,640,755	39,968,834

Non-performing Murabaha financing transactions amounting to YR 2,605,140 thousand at December 31, 2012 (2011: YR 3,981,919 thousand). The breakup of the above amount is as follows:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Substandard financing	5,892	98,697
Doubtful financing	414,212	383,031
Bad financing	2,185,036	3,500,191
	2,605,140	3,981,919

10. Murabaha contracts financing transactions provision

This item consists of the following as of December 31:

	Specific YR 000s	2012 General YR 000s	Total YR 000s	Specific YR 000s	2011 General YR 000s	Total YR 000s
Balance at January 1,	3,122,124	380,917	3,503,041	728,663	751,046	1,479,709
Created during the year	-	60,382	60,382	2,394,438	(370,129)	2,024,309
Used during the year	-	-	-	(977)	-	(977)
Provision reserved	(724,225)	-	(724,225)	-	-	-
Balance at December 31,	2,397,899	441,299	2,839,198	3,122,124	380,917	3,503,041

11. Istisna'a contracts financing transactions, net

This item consists of the following as of December 31:

	Note	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Istisna'a contracts financing transactions		9,823,176	12,748,321
Less: Istisna'a financing transactions provision	12	(109,902)	(164,407)
Less: Deferred revenues		(966,000)	(1,283,820)
		8,747,274	11,300,094

Non-performing Istisna'a financing transaction amounting to YR 28,553 thousand at December 31, 2012 (2011: YR 9,418 thousand). The breakup of the above amount is as follows:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Substandard financing	15,556	8,290
Doubtful financing	6,301	-
Bad financing	6,696	1,128
	28,553	9,418

12. Istisna'a contracts financing transactions provision

This item consists of the following as of December 31:

	2012			2011		
	Specific YR 000s	General YR 000s	Total YR 000s	Specific YR 000s	General YR 000s	Total YR 000s
Balance at January 1,	5,178	159,229	164,407	-	82,920	82,920
Created during the year	8,084	-	8,084	5,178	76,309	81,487
Used during the year	-	-	-	-	-	-
Provision reserved	(33,259)	(29,330)	(62,589)	-	-	-
Balance at December 31,	(19,997)	129,899	109,902	5,178	159,229	164,407

13. Investments in Mudaraba contracts, net

This item consists of the following as of December 31:

	Note	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Investments in Mudaraba contracts - foreign		14,444,994	20,825,758
Investments in Mudaraba contracts - local		14,834,035	4,499,197
		29,279,029	25,324,955
Less: Investments in Mudaraba contracts provision	14	(699,140)	(1,136,050)
		28,579,889	24,188,905

14. Investments in Mudaraba contracts provision

This item consists of the following as of December 31:

	2012			2011		
	Specific YR 000s	General YR 000s	Total YR 000s	Specific YR 000s	General YR 000s	Total YR 000s
Balance at January 1,	1,115,968	20,082	1,136,050	7,046,985	62,829	7,109,814
Created during the year	543,600	105,659	649,259	489,425	10,041	499,466
Transferred from general to specific provision	47,400	(47,400)	-	52,788	(52,788)	-
Used during the year	-	-	-	(6,473,230)	-	(6,473,230)
Provision reserved	(983,897)	(102,272)	(1,086,169)	-	-	-
Balance at December 31,	723,071	(23,931)	699,140	1,115,968	20,082	1,136,050

15. Investments in Musharaka contracts, net

This item consists of the following as of December 31:

	Note	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Investments in Musharaka contracts - foreign		4,990,815	12,394,680
Investments in Musharaka contracts - local		557,948	1,873,113
		5,548,763	14,267,793
Less: Investments in Musharaka contracts provision	16	(1,225,425)	(581,226)
		4,323,338	13,686,567

16. Investments in Musharaka contracts provision

This item consists of the following as of December 31:

	2012			2011		
	Specific YR 000s	General YR 000s	Total YR 000s	Specific YR 000s	General YR 000s	Total YR 000s
Balance at January 1,	458,939	122,287	581,226	90,292	710,914	801,206
Created during the year	1,013,948	4	1,013,952	98,425	122,456	220,881
Transferred from general to specific provision	5,576	(5,576)	-	(66,430)	66,430	-
Used during the year	-	-	-	-	(128,264)	(128,264)
Provision reserved	(242,028)	(127,725)	(369,753)	-	(312,597)	(312,597)
Balance at December 31,	1,236,435	(11,010)	1,225,425	122,287	458,939	581,226

17. Ijarah Muntahia Bittamleek, net

This item consists of the following as of December 31:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Total cost	179,651	306,433
Less: Deferred revenues	(21,854)	(566)
Less: Accumulated depreciation	(678)	-
Net book value	157,119	305,867

The balance as at December 31, 2012 represents the cost of 120 cars leased to various entities according to Ijarah Muntahia Bittamleek contracts that end in 2013. The balance as at December 31, 2011 represents the cost of 140 cars leased to various entities according to Ijarah Muntahia Bittamleek contracts that end in 2013.

18. Investment in Ijarah contract provision

This item consists of the following as of December 31:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Balance at January 1,	-	-
Created during the year	678	-
Used during the year	-	-
Balance at December 31,	678	-

19. Investments in real estate, net

This item consists of the following as of December 31:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Investments in real estate - foreign	91,786,870	91,405,876
Investments in real estate - local	24,804,255	12,774,904
	116,591,125	104,180,780
Add: Change in fair value (unrealized gain)	3,585,050	11,331,956
	120,176,175	115,512,736

Investments in real estate - foreign are registered in the name of related parties who provided written assignment in favour of the Bank. The Bank is currently completing the necessary legal procedures to register the properties (local investments) in its own name.

20. Available for sale investments, net

This item consists of the following as of December 31:

	Quoted YR 000s	2012 Unquoted YR 000s	Total YR 000s
Available for sale investments - foreign	4,715,798	29,149,574	33,865,372
Available for sale investments - local	-	3,405,968	3,405,968
	4,715,798	32,555,542	37,271,340
Add: change in fair value (Unrealized gain)	-	379,618	379,618
	4,715,798	32,935,160	37,650,958

	Quoted YR 000s	2011 Unquoted YR 000s	Total YR 000s
Available for sale investments - foreign	11,106,475	26,647,431	37,753,906
Available for sale investments - local	-	2,748,365	2,748,365
	11,106,475	29,395,796	40,502,271
Add: change in fair value (Unrealized gain)	557,576	1,633,027	2,190,603
	11,664,051	31,028,823	42,692,874

Available-for-sale investments (unquoted) as at December 31, 2012 included YR000s: 30,518,324 (2011: YR000s: 20,404,781) which are carried at cost due to the difficulty of obtaining a reliable estimate of fair value for these investments and there are no quoted market prices and future cash flows cannot be determined with sufficient accuracy.

21. Held-for-trading investments

This item consists of the following as of December 31:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Opening balance at January 1,	868,377	1,501,320
Created during the year	2,063,009	3,143,624
Disposals during the year	-	(3,467,112)
Unrealized fair value recognized in the consolidated statement of comprehensive income	-	(309,455)
	2,931,386	868,377

22. Investments in Sukuk

This item consists of the following as of December 31:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Investment in Istisna'a Sukuk	26,795,000	1,000,000
	26,795,000	1,000,000
Add: Deferred revenues	3,596,308	148,575
	30,391,308	1,148,575

23. Debit balances and other assets, net

This item consists of the following as of December 31:

	Note	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Assets which titles have been transferred to the bank		2,654,685	2,839,092
Project under processing		855,122	906,228
Prepaid expenses		421,046	54,007
Equipment in stores		100,524	27,982
Stationery inventory		88,695	117,973
Advances to employees		51,299	66,416
Other debit balances		865,099	2,505,884
		5,036,470	6,517,582
Less: provision for doubtful debts	24	(90,877)	(471,650)
		4,945,593	6,045,932

24. Provision for doubtful debts

This item consists of the following as of December 31:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Opening balance at January 1,	471,650	205,786
Created during the year	-	265,864
Used during the year	(6,346)	-
Provision reserved	(374,427)	-
Balance at December 31,	90,877	471,650

25. Property and equipment, net

This item consists of the following as of December 31:

	Lands YR 000s	Buildings YR 000s	Machinery & Equipment YR 000s	Motor Vehicles YR 000s	Furniture & Fixtures YR 000s	Computer Equipment YR 000s	Total YR 000s
Gross carrying amount							
January 1, 2012	1,152,576	2,475,782	1,003,417	380,514	325,243	1,470,954	6,808,486
Additions	13,173	38,160	337,181	56,621	25,527	370,701	841,363
Disposals	(1,078,475)	-	(172,162)	(64,851)	(9,088)	(54,028)	(1,378,604)
Foreign exchange differences	-	(64)	(42,568)	117	25	51,979	9,489
Balance as of December 31, 2012	87,274	2,513,878	1,125,868	372,401	341,707	1,839,606	6,280,734
Accumulated depreciation							
January 1, 2012	-	198,952	568,898	239,920	227,915	770,456	2,006,141
Depreciation	-	61,973	95,680	83,962	18,813	238,730	499,158
Disposals	-	-	(44,474)	(43,913)	(3,118)	(38,110)	(129,615)
Foreign exchange differences	-	-	(32,890)	78	776	42,413	10,377
Balance as of December 31, 2012	-	260,925	587,214	280,047	244,386	1,013,489	2,386,061
Carrying amount as of December 31, 2012	87,274	2,252,953	538,654	92,354	97,321	826,117	3,894,673
Gross carrying amount							
January 1, 2011	1,527,474	2,473,769	929,834	377,208	332,033	929,202	6,569,520
Additions	173	1,970	93,913	46,273	17,080	547,928	707,337
Disposals	-	(22)	(47,968)	(61,200)	(6,331)	(59,642)	(175,163)
Foreign exchange differences	(375,071)	65	27,638	18,233	(17,539)	53,466	(293,208)
Balance as of December 31, 2011	1,152,576	2,475,782	1,003,417	380,514	325,243	1,470,954	6,808,486
Accumulated depreciation							
January 1, 2011	-	137,059	473,633	176,231	178,159	606,363	1,571,445
Depreciation	-	61,893	117,832	84,807	69,478	177,223	511,233
Disposals	-	-	(38,870)	(28,314)	(5,931)	(42,465)	(115,580)
Foreign exchange differences	-	-	16,303	7,196	(13,791)	29,335	39,043
Balance as of December 31, 2011	-	198,952	568,898	239,920	227,915	770,456	2,006,141
Carrying amount as of December 31, 2011	1,152,576	2,276,830	434,519	140,594	97,328	700,498	4,802,345

26. Current accounts and other deposits

This item consists of the following as of December 31:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Current accounts	127,456,656	65,318,229
Cash deposits	3,865,434	5,386,553
Other deposits	1,949,918	707,199
	133,272,008	71,411,981

27. Due to banks and financial institutions

This item consists of the following as of December 31:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Foreign banks - current accounts	145,905	2,233,120
Local banks	26,329	4,489,800
	172,234	6,722,920

28. Credit balances and other liabilities

This item consists of the following as of December 31:

	Note	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Accrued expenses		116,034	10,943
Prohibited revenues by Islamic Sharia'a	29	16,272	9,500
Accrued taxes		8,028	114,870
Creditor and other credit balances		4,203,620	4,290,348
		4,343,954	4,425,661

29. Prohibited revenues by islamic sharia'a

Revenues prohibited by Islamic Sharia'a and aspects of disposition:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Opening balance at January 1,	9,500	6,433
Net revenues during the year	6,772	7,261
Total of revenue	16,272	13,694
Less: Donations	-	(4,194)
Balance at December 31,	16,272	9,500

30. Other provisions

This item consists of the following as of December 31:

	Balance at Jan. 1 YR 000s	Provided during the year YR 000s	Used during the year YR 000s	Provision reversed YR 000s	Balance at Dec. 31, 2012 YR 000s
Provision for contingent liabilities	662,713	-	-	(167,503)	495,210
Provision for end of service benefits	224,374	8,585	(49)	-	232,910
Provision for contingent claims	-	657,503	-	-	657,503
	887,087	666,088	(49)	(167,503)	1,385,623

	Balance at Jan. 1 YR 000s	Provided during the year YR 000s	Used during the year YR 000s	Provision reversed YR 000s	Balance at Dec. 31, 2011 YR 000s
Provision for contingent liabilities	670,386	-	-	(7,673)	662,713
Provision for end of service benefits	191,145	296,847	(263,618)	-	224,374
Provision for contingent claims	337,653	-	(337,653)	-	-
	1,199,184	296,847	(601,271)	(7,673)	887,087

31. Unrestricted investments and saving accounts' holders

This item consists of the following as of December 31:

	Note	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Saving accounts - local currency		43,424,389	32,600,041
Saving accounts - foreign currency		35,379,302	32,441,764
		78,803,691	65,041,805
Deposits for more than one year - local currency		91,515,812	71,419,855
Deposits for more than one year - foreign currency		57,697,435	64,218,936
		149,213,247	135,638,791
Return for unrestricted investments and saving accounts	32	14,160,821	11,757,264
		242,177,759	212,437,860

32. Return of unrestricted investments and saving accounts' holders

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 the investments in local and foreign currencies and their related numbers and participation ratios. The average return ratios were as follows:

	Local Currency %	2012 Foreign Currency %	Local Currency %	2011 Foreign Currency %
Investment deposits	11.05	3.11	10.12	3.09
Saving accounts	6.50	1.74	5.95	1.74

33. Share capital

The authorized, issued and fully paid-up capital is YR 20 billion represented in 20 million shares of nominal value of YR 1,000 each.

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Paid up capital	20,000,000	20,000,000
	20,000,000	20,000,000

34. Statutory reserve

According to the Bank's Articles of Association and CBY instructions, 15% of the net profit for the year is to be transferred annually to statutory reserve till it equals two times the paid-up capital. The distribution of this reserve is restricted to the requirements as specified in the Commercial Companies Law.

This item consists of the following as of December 31:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Balance at January 1,	15,900,069	15,900,069
Created during the year	392,748	-
Balance at December 31,	16,292,817	15,900,069

The proceeds received from the rights issue are directly credited to the share capital (nominal value of shares). When shares have been issued at a value higher than their nominal value, the net increase is presented as statutory reserve as required by Yemeni Companies Law No. 22 of 1997.

35. General reserve

The transfer and distribution of the general reserve is subject to the recommendation of the Board of Directors and the approval of shareholders in the Annual General Meeting (AGM).

36. Othere reserves

This item consists of the following as of December 31:

	Balance at Jan. 1 YR 000s	Provided during the year YR 000s	Used during the year YR 000s	Balance at Dec. 31, 2012 YR 000s
Available for sale investments	(853,466)	331,151	-	(522,315)
Investments in real estate	26,233,034	3,585,050	(5,607,053)	24,211,031
Re-evaluation differences of investments in subsidiaries	374,243	-	(374,243)	-
	25,753,811	3,916,201	(5,981,296)	23,688,716

	Balance at Jan. 1 YR 000s	Provided during the year YR 000s	Used during the year YR 000s	Balance at Dec. 31, 2011 YR 000s
Available for sale investments	(3,044,069)	2,190,603	-	(853,466)
Investments in real estate	14,901,078	11,331,956	-	26,233,034
Re-evaluation differences of investments in subsidiaries	374,243	-	-	374,243
	12,231,252	13,522,559	-	25,753,811

37. Contingent liabilities and commitments, net

This item consists of the following as of December 31:

	Gross Commitments YR 000s	2012 Margin Held YR 000s	Net Commitment YR 000s	Gross Commitment YR 000s	2011 Margin Held YR 000s	Net Commitment YR 000s
Letters of credit	17,146,979	(2,769,029)	14,377,950	45,845,507	(2,817,143)	43,028,364
Letters of guarantee	24,342,930	(114,995)	24,227,935	20,402,741	(2,362,148)	18,040,593
L/Cs for Murabaha contracts	10,950,208	(35,050)	10,915,158	5,378,811	(176,443)	5,202,368
	52,440,117	(2,919,074)	49,521,043	71,627,059	(5,355,734)	66,271,325

38. Revenue of Murabaha and Istisna'a financing transactions

This item consists of the following for the year ended December 31:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Revenue of Murabaha contracts financing transactions	4,679,748	5,947,255
Revenue of Istisna'a contracts financing transactions	1,621,501	1,448,338
	6,301,249	7,395,593

39. Revenue from other joint investments

This item consists of the following for the year ended December 31:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Profits from real estate investments	6,584,546	5,736,003
Profits from investments in Mudaraba contracts	5,900,176	11,823
Profits from investment in Islamic sukuk- the Central Bank of Yemen	3,602,293	-
Profits from available-for-sale investments	625,656	655,071
Profits from investments in Musharaka contracts	161,760	1,157,633
Profits from other investments	3,784,264	2,440,515
	20,658,695	10,001,045

40. Commissions, revenue and bank service charges

This item consists of the following for the year ended December 31:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Commissions on documentary credits	886,725	728,063
Commissions on letters of guarantee	330,347	261,996
Commissions on cash transaction	161,644	112,621
Commissions on Cheques collection	37,815	26,764
Commissions on foreign investments	35,423	223,636
Other fees and commissions	342,777	588,284
	1,794,731	1,941,364

41. Foreign currencies exchange losses

This item consists of the following for the year ended December 31:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Losses from re-evaluation of balances in foreign currencies	1,003,834	17,826
Losses of dealing in foreign currencies	1,526,301	1,279,155
	2,530,135	1,296,981

42. Other operating income

This item consists of the following for the year ended December 31:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Provisions reserved	430,754	374,421
Others	9,106	72,064
	439,860	446,485

43. Provisions

This item consists of the following for the year ended December 31:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Musharaka contracts investments provision	922,108	-
Provision for contingent claims	172,034	-
Murabaha contracts financing transactions provision	10,877	2,024,390
Mudaraba contracts investments provision	-	499,466
Istisna'a contracts financing transactions provision	-	81,487
Others	5,418	265,783
	1,110,437	2,871,126

44. General and administration expenses and depreciation

This item consists of the following for the year ended December 31:

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Salaries and wages	2,942,350	2,909,501
Deprecation	606,016	555,191
Zakat	551,345	107,923
Rent	292,466	261,582
Repairs and maintenance	221,605	103,997
Advertisements	195,964	78,860
Transportation	186,750	27,538
Cleaning and security expenses	127,889	146,977
Utilities	91,146	93,802
Insurance	76,639	109,891
Stationery	66,218	51,364
Subscriptions	57,446	70,860
Communications	41,791	38,397
Professional fees	26,122	34,952
Donations	23,689	44,077
Vehicles expenses	22,814	41,118
Hospitality expenses	6,261	5,060
Information technology expenses	3,825	22,989
Other expenses	1,086,028	729,792
	6,626,364	5,433,871

45. Earnings (losses) per share

	Dec. 31, 2012	Dec. 31, 2011
Net profit (loss) for the year (YR000s)	2,499,947	(1,825,924)
Weighted average of number of shares	20,000	20,000
Earnings (losses) per share	125	(91.3)

46. Maturities of financial assets and liabilities

	Due within 3 months YR Million	Due from 3 to 6 months YR Million	2012 Due from 6 months to one year YR Million	Due over one year YR Million	Total YR Million
Assets					
Cash on hand and reserve balances with CBY	11,676	15,269	12,373	8,845	48,163
Due from banks and financial institutions	25,370	28,816	31,552	23,146	108,884
Murabaha contracts financing transactions, net	21,741	14,270	4,073	3,557	43,641
Istisna'a contracts financing transactions, net	600	4,301	2,773	1,073	8,747
Investments in Mudaraba contracts, net	4,946	2,048	5,352	16,234	28,580
Investments in Musharaka contracts, net	-	266	1,084	2,973	4,323
Ijarah Muntahia Bittamleek, net	11	16	62	68	157
Investments in real estate, net	120,176	-	-	-	120,176
Available for sale investments, net	-	-	-	37,651	37,651
Held-for- trading investments	-	-	2,932	-	2,932
Investments in Islamic Sukuk	-	-	30,392	-	30,392
	184,520	64,986	90,593	93,547	433,646
Liabilities					
Current accounts and other deposits	40,521	48,968	24,423	19,360	133,272
Unrestricted investments and saving accounts' holders' equity	47,661	61,315	75,937	57,265	242,178
Due to bank and financial institutions	172	-	-	-	172
	88,354	110,283	100,360	76,625	375,622
	96,166	(45,297)	(9,767)	16,922	58,024

	Due within 3 months YR Million	Due from 3 to 6 months YR Million	2011 Due from 6 months to one year YR Million	Due over one year YR Million	Total YR Million
Assets					
Cash on hand and reserve balances with CBY	11,871	15,850	10,201	9,107	47,029
Due from banks and financial institutions	12,206	14,298	12,546	11,180	50,230
Murabaha contracts financing transactions, net	20,312	13,868	2,132	3,657	39,969
Istisna'a contracts financing transactions, net	888	5,782	3,130	1,500	11,300
Investments in Mudaraba contracts, net	4,428	2,217	3,562	13,982	24,189
Investments in Musharaka contracts, net	-	1,116	2,885	9,686	13,687
Ijarah Muntahia Bittamleek, net	24	38	109	135	306
Investments in real estate, net	115,513	-	-	-	115,513
Available for sale investments, net	-	-	-	42,693	42,693
Held-for-trading investments	-	-	-	888	888
Investments in Islamic Sukuk	-	-	1,149	-	1,149
	165,242	53,169	35,714	92,808	346,933
Liabilities					
Current accounts and other deposits	22,427	27,667	10,230	11,088	71,412
Unrestricted investments and saving accounts' holders	44,007	58,132	58,212	52,445	212,796
Due to bank and financial institutions	6,723	-	-	-	6,723
	73,157	85,799	68,442	63,533	290,931
	92,085	(32,630)	(32,728)	29,275	56,002

47. Distribution of assets, liabilities, and contingent liabilities and commitments based on economic sectors:

	2012					Individual & Other	Total
	Financial	Manufacturing	Trade	Constructions	Services		
	YR Million	YR Million	YR Million	YR Million	YR Million		
Assets							
Cash on hand and reserve balances with CBY	48,163	-	-	-	-	-	48,163
Due from banks and financial institutions	108,885	-	-	-	-	-	108,885
Murabaha contracts financing transactions, net	-	10,213	25,112	4,876	2,791	649	43,641
Istisna'a contracts financing transactions, net	-	8,136	-	-	-	611	8,747
Investments in Mudaraba contracts, net	14,483	6,291	7,434	-	20	352	28,580
Investments in Musharaka contracts, net	1,721	-	2,545	-	-	57	4,323
Ijarah Muntahia Bittamleek, net	-	-	157	-	-	-	157
Investments in real estate, net	105,827	-	-	10,744	-	3,605	120,176
Available for sale investments, net	37,651	-	-	-	-	-	37,651
Held-for-trading investments	2,931	-	-	-	-	-	2,931
Investments in Islamic Sukuk	30,391	-	-	-	-	-	30,391
Liabilities							
Current accounts and other deposits	-	36,479	41,289	-	8,718	46,786	133,272
Unrestricted investments and saving accounts' holders' equity	-	6,257	12,520	-	36,400	187,001	242,178
Due to banks and financial institutions	172	-	-	-	-	-	172
Contingent liabilities							
Letters of guarantee	-	-	16,545	7,683	-	-	24,228
Letters of credit	-	-	7,850	6,528	-	-	14,378
L/Cs for Murabaha contracts	-	-	10,915	-	-	-	10,915

	2011						Total
	Financial	Manufacturing	Trade	Constructions	Services	Individual & Other	
	YR Million	YR Million	YR Million	YR Million	YR Million	YR million	
Assets							
Cash on hand and reserve balances with CBY	47,029	-	-	-	-	-	47,029
Due from banks and financial institutions	50,230	-	-	-	-	-	50,230
Murabaha financing transactions, net	-	9,354	22,999	5,265	1,357	994	39,969
Istisna'a financing transactions, net	-	10,511	-	-	-	789	11,300
Investments in Mudaraba contracts, net	12,500	5,324	6,292	-	17	56	24,189
Investments in Musharaka contracts, net	5,586	-	8,056	-	-	45	13,687
Ijarah Muntahia Bittamleek, net	-	-	306	-	-	-	306
Investments in real estate, net	102,876	-	-	12,637	-	-	115,513
Available for sale investments, net	42,693	-	-	-	-	-	42,693
Held-for-trading investments	-	-	868	-	-	-	868
Investments in Islamic Sukuk	1,149	-	-	-	-	-	1,149
Liabilities							
Current accounts and other deposits	-	19,547	22,124	-	2,529	27,212	71,412
Unrestricted investments and saving accounts' holders' equity	-	5,498	11,001	-	25,600	170,697	212,796
Due to banks and financial institutions	6,723	-	-	-	-	-	6,723
Contingent liabilities							
Letters of guarantee	-	-	11,254	6,787	-	-	18,041
Letters of credit	-	-	22,632	20,396	-	-	43,028
L/Cs for Murabaha contracts	-	-	-	-	5,202	-	5,202

48. Distribution of assets, liabilities, and contingent liabilities and commitments based on geographical locations:

	2012					
	Republic of Yemen YR Million	United States Of America YR Million	Europe YR Million	Asia YR Million	Africa YR Million	Total YR million
Assets						
Cash in hand and reserve balances with CBY	48,163	-	-	-	-	48,163
Due from banks and financial institutions	29,492	4,178	7,476	65,438	2,301	108,885
Murabaha contracts financing transactions, net	43,641	-	-	-	-	43,641
Istisna'a contracts financing transactions, net	8,747	-	-	-	-	8,747
Investments in Mudaraba contracts, net	5,258	-	557	19,637	3,128	28,580
Investments in Musharaka contracts, net	830	178	276	2,953	86	4,323
Ijarah Muntahia Bittamleek, net	157	-	-	-	-	157
Investments in real estate, net	22,150	-	184	92,725	5,117	120,176
Available for sale investments, net	-	-	-	28,730	8,921	37,651
Held-for-trading investments	-	-	-	2,931	-	2,931
Investments in Islamic Sukuk	30,391	-	-	-	-	30,391
Liabilities						
Current accounts and other deposits	133,272	-	-	-	-	133,272
Unrestricted investments and saving account holders' equity	242,178	-	-	-	-	242,178
Due to bank and financial institutions	-	-	-	172	-	172
Contingent liabilities						
Letters of guarantee	-	4,957	7,087	11,057	1,127	24,228
Letters of credit	-	416	3,864	9,539	559	14,378
LCs for Murabaha contracts	8,196	-	430	1,681	608	10,915

	2011					
	Republic of Yemen YR Million	United States Of America YR Million	Europe YR Million	Asia YR Million	Africa YR Million	Total YR million
Assets						
Cash in hand and reserve balances with CBY	47,029	-	-	-	-	47,029
Due from banks and financial institutions	13,605	1,425	3,951	31,192	57	50,230
Murabaha financing transactions, net	39,969	-	-	-	-	39,969
Istisna'a financing transactions, net	11,300	-	-	-	-	11,300
Investments in Mudaraba contracts, net	4,450	-	713	17,104	1,922	24,189
Investments in Musharaka contracts, net	2,628	428	1,009	9,622	-	13,687
Ijarah Muntahia Bittamleek, net	306	-	-	-	-	306
Investments in real estate, net	21,291	-	1,332	91,437	1,453	115,513
Available for sale investments, net	-	-	-	33,431	9,262	42,693
Held-for-trading investments	-	-	-	868	-	868
Investments in Islamic Sukuk	1,149	-	-	-	-	1,149
Liabilities						
Current accounts and other deposits	71,412	-	-	-	-	71,412
Unrestricted investments and saving account holders' equity	212,796	-	-	-	-	212,796
Due to bank and financial institutions	-	-	-	6,723	-	6,723
Contingent liabilities						
Letters of guarantee	-	4,507	5,567	6,483	1,484	18,041
Letters of credit	-	1,244	12,424	27,255	2,105	43,028
LCs for Murabaha contracts	4,062	-	205	645	290	5,202

49. Significant foreign currency 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 statement of financial position date.

	2012		2011	
	Surplus (Deficit) YR 000s	% of Capital & reserves	Surplus (Deficit) YR 000s	% of Capital & reserves
US Dollar	14,831	%41	13,084	%41
Euro	(271)	%(1)	3,212	%10
Saudi Rial	10,120	%28	19,989	%62
Sterling Pound	3,839	%11	2,976	%9
Dirham - UAE	33,481	%92	32,363	%101
Dinar - Bahrain	6,681	%18	6,647	%21
Yen - Japan	46	%0.1	55	%0.2
Dinar - Jordan	309	%1	311	%1
Dinar - Kuwait	1,640	%4	1,708	%5
Frank - Swiss	132	%0.4	22	%0.1
Pound - Sudan	390	%1	6,117	%19
Total	71,198	%196	86,484	%269

50. Transactions with related parties

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

Related parties are represented in the members of the Board of Directors, executive management and the companies which are owned by the shareholders and members of the Board of Directors.

The Bank deals with related parties on the same basis applied to third parties in accordance with the Banks Law as implemented by CBY circular no. 4 of 1999 which limits credit transactions with related parties. The following are the balances of these transactions on the statement of financial position date

	Related Parties	Top Managements	2012 YR Million	2011 YR Million
Direct and indirect financing	40,585	49	40,634	53,208
Current and saving accounts	9,041	-	9,041	13,668
Investments in associates	-	-	-	-
Revenue and commission received	3,189	3	3,192	2,905
Compensations	-	26	26	29

51. Tax status

- Corporate tax and salary tax has been cleared until the year 2006 and tax was paid in accordance with the Tax Authority assessment (form no. "5" final). However, the Bank has a dispute with the Tax Authority related to benefits that the banks should receive based on the tax exemptions related to financing projects licensed in accordance with the Investment Law. The Bank has received an assessment of YR 000: 440,935 as tax differences for the year 2005 and 2006 and the Bank has objected to this assessment at the courts. The Bank management believes that no additional taxes have to be paid.
- The Bank has submitted the tax declaration for the year 2007 and paid the amount due within the legal deadline. The Bank management received from no. (3) from the Tax Authority as tax amendment for 2007 tax declaration submitted by the Bank (after deducting the tax paid) of YR 000: 749,161 for corporate tax and YR 000: 27,066 for salary tax. The Bank has appealed this assessment within the legal time frame and also objected to the amendments made by the Tax Authority

regarding the application of the exemption on income earned on facilities granted to projects licensed under the Investment Law. The Bank management believes that this additional assessment is baseless and that the Bank will not have to pay any additional tax.

- The Bank has submitted the tax declaration for the year 2008 and paid the amount due within the legal deadline and no assessment has been received from Tax Authority.
- The Bank has submitted the tax declaration for the year 2009 and paid the amount due within the legal deadline and no assessment has been received from Tax Authority.
- The Bank has submitted the tax declaration for the year 2010 and paid the amount due within the legal deadline and no assessment has been received from Tax Authority.
- The Bank has submitted the tax declaration for the year 2011 and paid the amount due within the legal deadline and no assessment has been received from Tax Authority.

52. Significant accounting judgments and estimates

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

The estimates and associated assumptions are based on historical experience of the Group and various other factors that are believed by the Group to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

53. Zakat

The Bank submits its Zakat declaration annually and remits the amount due based on the declaration. The Bank has paid the Zakat up to the end of 2011, according to the Zakat declaration. No assessment notification was issued by the Zakat Department.

54. Approval of financial statements

The consolidated financial statements for the year ended December 31, 2012 (including comparatives) were approved by the board of directors on April 23, 2013.

The Separate Financial Statements For Tadhamon International Islamic Bank

1) Separate Statement of Financial Position

December 31, 2012

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Assets		
Cash on hand and reserve balances with Central Bank of Yemen	48,162,987	47,024,623
Due from bank and financial institutions	101,800,443	47,625,129
Murabaha contracts financing transactions, net	43,640,755	39,968,834
Istisna'a contracts financing transactions, net	8,747,275	11,300,094
Investments in Mudaraba contracts, net	28,579,889	24,203,350
Investments in Musharaka contracts, net	13,986,170	13,686,567
Ijarah Muntahia Bittamleek, net	157,119	305,867
Investments in real estate, net	120,176,175	115,512,736
Available for sale investments, net	37,610,957	42,652,288
Investments in Islamic Sukuk	30,391,308	1,148,575
Qard Hasan, net	3,762	233
Restricted investments	7,622,837	358,023
Debit balances and other assets, net	4,320,229	4,699,296
Property and equipment, net	3,876,532	4,739,859
Total assets	449,076,438	353,225,474
Liabilities, investments accounts' holders and shareholders' equity		
Liabilities		
Current accounts and other deposits	133,483,771	70,801,441
Due to banks and financial institutions	172,233	6,722,920
Credit balances of Murabaha	-	22,250
Credit balances and other liabilities	3,991,437	4,062,560
Other provisions	1,385,623	887,087
Total liabilities	139,033,064	82,496,258
Investments accounts' holders' equity		
Unrestricted investments and saving accounts' holders	242,177,758	212,437,860
Restricted investments accounts	7,622,837	358,023
Total investments accounts' holders' equity	249,800,595	212,795,883
Shareholders' equity		
Share capital	20,000,000	20,000,000
Statutory reserve	16,292,817	15,651,874
General reserve	261,246	261,246
Other reserves	23,688,716	25,465,056
Retained (deficit) earnings	-	(3,444,843)
Total equity attributable to equity holders of parent	60,242,779	57,933,333
Total liabilities, investments accounts' holders and shareholders' equity	449,076,438	353,225,474
Contingent liabilities and commitments, net	49,521,042	66,271,325

2) Separate Statement of Comprehensive Income

For the year ended December 31, 2012

	Dec. 31, 2012 YR 000s	Dec. 31, 2011 YR 000s
Revenue of Murabaha and Istisna'a contracts financing transactions	6,301,249	7,395,593
Revenue from other joint investments	20,658,695	8,486,656
	26,959,944	15,882,249
Less:		
Return on unrestricted investments and saving accounts' holders' equity	(14,160,821)	(11,757,264)
	12,799,123	4,124,985
Commissions and bank service charges revenue	1,794,731	1,941,364
Less: Commission expenses on bank service charges	(50,890)	(46,345)
Foreign currencies exchange (loss)	(2,530,135)	(1,483,182)
Gain of investments in associates	-	28,387
Impairment of available for sale investments	(2,456,715)	(312,068)
Gain on sale of property and equipment	240,774	-
Other operating income	439,860	453,519
Operating profit	10,236,748	4,706,660
Less:		
Provisions	(1,110,437)	(2,871,126)
General and administration expenses and depreciation	(6,626,364)	(4,199,701)
Net profit (loss) for the year	2,499,947	(2,364,167)