

بنك التضامن الإسلامي الدولي

Tadhamon International Islamic Bank



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2011

التقرير السنوي

Independent Auditor's Report



Grant Thornton

Independent Auditor's Report

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, 2011, the consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity, consolidated statement of cash flow, consolidated statements 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.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the **Group** as at December 31, 2011 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.

Other Matters

The Financial Statements of the Bank as of December 31, 2010 was audited by another auditor whose report dated March 31, 2011 expressed an unqualified opinion on those statements.

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.

Consolidated Statement of Financial Position

December 31, 2011

	Notes	Dec. 31, 2011	Dec. 31, 2010
		YR 000s	Restated YR 000s
Assets			
Cash on hand and reserve balances with Central Bank of Yemen	7	47,028,799	58,938,687
Due from banks and financial institutions	8	50,230,489	46,483,649
Murabaha financing transactions, net	9	39,968,834	75,548,759
Istisna'a financing transactions, net	11	11,300,094	8,209,034
Investments in Mudaraba contracts, net	13	24,188,905	18,226,730
Investments in Musharaka contracts, net	15	13,686,567	10,895,795
Ijarah Muntahia Bittamleek, net	17	305,867	532,999
Investments in real estate, net	18	115,512,736	109,808,719
Available for sale investments, net	19	42,692,874	39,523,123
Held-for-trading investments	20	868,377	1,501,320
Investments in associates	21	-	61,761
Investments in Islamic Sukuk		1,148,575	-
Qard Hasan, net		233	16,173
Restricted investments		358,023	390,519
Debit balances and other assets, net	22	6,045,932	7,041,939
Property and equipment, net	24	4,802,345	4,998,075
Total assets		358,138,650	380,177,282
Liabilities, investments accounts' holders and shareholders' equity			
Liabilities			
Current accounts and other deposits	25	71,411,981	82,615,807
Due to banks and financial institutions	26	6,722,920	37,680
Credit balances of Murabaha		22,250	1,154,549
Credit balances and other liabilities	27	4,425,661	3,519,856
Other provisions	29	887,087	1,199,184
Total liabilities		83,469,899	88,527,076
Investments accounts' holders equity			
Unrestricted investments and saving accounts' holders	30	212,437,860	240,362,700
Restricted investments accounts		358,023	390,519
Total investments accounts' holders equity		212,795,883	240,753,219
Shareholders' equity			
Share capital	32	20,000,000	20,000,000
Statutory reserve	33	15,900,069	15,900,069
General reserve	34	261,246	982,000
Other reserves	35	25,753,811	12,231,252
Retained (deficit) earnings		(91,501)	1,735,135
Total equity attributable to equity holders of parent		61,823,625	50,848,456
Non-controlling interest		49,243	48,531
Total shareholders' equity		61,872,868	50,896,987
Total liabilities, investments accounts' holders and shareholders' equity		358,138,650	380,177,282
Contingent liabilities and commitments, net	36	66,271,325	66,262,500

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2011

	Notes	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Revenue of Murabaha and Istisna'a financing transactions	37	7,395,593	7,781,000
Revenue from other joint investments	38	10,001,045	4,120,515
		17,396,638	11,901,515
Less:			
Return on unrestricted investments and saving accounts		(11,757,264)	(17,598,461)
		5,639,374	(5,696,946)
Commissions and bank services charges revenue	39	1,941,364	1,865,067
Less: Commissions expenses and bank service charges		(46,345)	(56,306)
Foreign currencies exchange (loss) gain	40	(1,296,981)	4,724,707
Gain on investments in associates		28,387	4,180,154
Unrealized gain (loss) on held for trading investments		108,382	(42,379)
Impairment of available for sale investments		(341,593)	(723,412)
Unrealized gain from investments in real estate		-	1,971,317
Other operating income	41	446,485	601,948
Operating profit		6,479,073	6,824,150
Less:			
Provisions	42	(2,871,126)	(1,778,995)
General and administrative expenses and depreciation	43	(5,433,871)	(4,699,705)
Impairment of assets which titles have been transferred to the bank		-	(16,840)
Net (loss) profit for the year		(1,825,924)	328,610
Attributable to:			
Equity holders of the parent		(1,826,636)	328,419
Non-controlling interest		712	191
Net (loss) profit for the year		(1,825,924)	328,610
(Losses) earnings per share	44	(91.3)	16.4
Net (loss) profit for the year		(1,825,924)	328,610
Net change of fair value:			
Available for sale investments	35	2,190,603	(2,209,628)
Investments in real estate	35	11,331,956	(2,902,753)
Total comprehensive income (loss) for the year		11,696,635	(4,783,771)
Attributable to:			
Equity holders of the parent		11,695,923	(4,783,917)
Non-controlling interest		712	146
		11,696,635	(4,783,771)

Consolidated Statement of Changes in Shareholders' Equity

For the year ended December 31, 2011

	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, 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
Share premium	-	-	-	-	-	-	-	-
Net movement in fair value reserve	-	-	-	13,522,559	-	13,522,559	-	13,522,559
Net movement in currency translation differences	-	-	-	-	-	-	-	-
Net loss for the year	-	-	-	-	(1,826,636)	(1,826,636)	712	(1,825,924)
Dividends to shareholders	-	-	(720,754)	-	-	(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	49,243	61,872,868
For the year ended Dec. 31, 2010								
Balance at January 1, 2010	20,000,000	15,900,012	1,069,000	17,004,439	1,406,716	55,380,167	17,889	55,398,056
Share premium	-	57	-	-	-	57	-	57
Net movement in fair value reserve	-	-	-	(5,112,381)	-	(5,112,381)	(45)	(5,112,426)
Net movement in currency translation differences	-	-	-	339,194	-	339,194	30,496	369,690
Net profit for the year	-	-	-	-	328,419	328,419	191	328,610
Dividends to shareholders	-	-	(87,000)	-	-	(87,000)	-	(87,000)
Balance at December 31, 2010	20,000,000	15,900,069	982,000	12,231,252	1,735,135	50,848,456	48,531	50,896,987

Consolidated Statement of Cash Flows

For the year ended December 31, 2011

	Dec. 31, 2011	Dec. 31, 2010
	YR 000s	Restated YR 000s
Cash flows from operating activities:		
Net (loss) profit for the year	(1,825,924)	328,610
Adjustments to reconcile net (loss) profit to cash flows from operating activities		
Depreciation of property and equipment	511,233	461,919
Provisions	2,871,126	1,778,995
Provision for end of service compensation	296,847	146,366
Net gains on sale of property and equipment	6,108	1,845,311
Gain from investments in associates	-	(4,180,154)
(Gain) loss on revaluation of held-for-trading investments	(108,382)	42,379
Translation differences of held-for-trading investments	-	(27,179)
Impairment of available for sale investments	341,593	2,207,463
Unrealized gain from impairment of investments in real estate	-	2,902,753
Provisions used	(7,075,478)	(683,709)
Provisions reversed	(293,091)	(263,722)
Foreign currency translation of property and equipment	332,251	(5,508)
Translation differences on foreign currency	-	369,690
Return of unrestricted investments and saving accounts	11,757,264	17,598,461
Operating profit before changes in assets and liabilities related to operating activities	6,813,547	22,521,675
Decrease (increase) in reserve balances with CBY	12,531,551	(9,760,304)
Decrease in Qard Hasan	15,940	509,185
Decrease in debit balances and other assets	730,143	1,337,826
Increase in credit balances and other liabilities	905,805	332,778
Net cash flows from operating activities (1)	20,996,986	14,941,160
Cash flows from investing activities:		
Decrease (increase) in financing Murabaha transactions	33,223,807	(6,085,664)
Increase in financing Istisna'a transactions	(3,172,547)	(1,424,144)
(Increase) decrease in investments in Mudaraba contracts	(1,988,411)	1,382,813
Decrease in Ijarah Muntahia Bittamleek	227,132	367,881
Increase in investments in Musharaka contracts	(2,505,354)	(1,314,215)
Decrease (increase) in investments in real estate	5,627,939	(27,467,351)
Decrease in held-for-trading investments	741,325	1,218,912
Proceeds from property and equipment	53,475	-
Decrease in credit balances of Murabaha	(799,513)	-
Increase in available for sale investments	(1,320,741)	(9,291,634)
Decrease (increase) in investments in associates	61,761	(9,805)
Increase in investments in Islamic Sukuk	(1,148,575)	-
Decrease in deposits with financial institutions	3,480,780	5,115,796
Net payment to purchase property and equipment	(707,337)	(2,958,855)
Net cash flows from (used in) investing activities (2)	31,753,741	(40,464,266)

See accompanying notes to the financial statements

Consolidated Statement of Cash Flows (Continued)

For the year ended December 31, 2011

	Notes	Dec. 31, 2011	Dec. 31, 2010
		YR 000s	Restated YR 000s
Cash flow from financing activities:			
Increase in share premium		-	57
(Decrease) increase in unrestricted investments and saving accounts		(27,924,840)	23,843,240
(Decrease) increase in current account and other deposits		(11,203,826)	13,657,944
Increase (decrease) in due to banks and financial institutions		6,685,240	(3,710)
Dividends paid to depositors		(11,757,264)	(17,674,577)
Dividends paid to shareholders and Board of Directors		(720,754)	(373)
Net cash flows (used in) from financing activities (3)		(44,921,444)	19,822,581
Net change in cash and cash equivalents(1+2+3)		7,829,283	(5,700,525)
Cash and cash equivalents at January 1		43,775,764	49,476,289
Cash and cash equivalents at December 31		51,605,047	43,775,764
Cash and cash equivalents consist of:			
Cash on hand and balances at CBY, other than reserve		28,220,344	31,135,129
Due from banks and financial institutions maturing within 3 months		23,384,703	12,640,635
		51,605,047	43,775,764

Consolidated Statement of Change in Restricted Investments

For the year ended December 31, 2011

	Trade in Real estate		Total	
	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
	YR 000s	YR 000s	YR 000s	YR 000s
Investments as at December 31	358,023	390,519	358,023	390,519
Number of units as at December 31	1	1	1	1

Consolidated Statement of Sources and Uses of Qard Hasan Fund

For the year ended December 31, 2011

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Balance as at January 1:		
Outstanding utilized loans	21,480	530,665
Add: Sources of Qard Hasan		
Transfer from customers' current accounts	5,494	21,480
Less: Uses of Qard Hasan		
Payment to customers' current accounts	(26,741)	(530,665)
Balance as at December 31:		
Outstanding utilized loans	233	21,480
Less: Qard Hasan fund provision	-	(5,307)
	233	16,173

The following shows the transactions of Qard Hasan provision:

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Balance as at January 1	5,307	5,307
Provided during the year	-	-
Provision reversed	(5,307)	-
Balance as at December 31	-	5,307

Notes to the Financial Statements

For the year ended December 31, 2011

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 shareholders extra ordinary meeting decided on March 20, 2002 to change the name of the Bank to Tadhamon International Islamic Bank. The objectives of the Bank are to finance, invest, and offer banking services in accordance with Article No. (3) of the Bank's Articles of Association which states that the bank performs its activities in conformity with the precepts of Islamic Shari'a.

The Bank started its activities on July 20th, 1996, through the main branch in Sana'a and expanded to (23) branches all over the Republic of Yemen, in addition to the subsidiaries inside and outside Yemen as follows:

Subsidiaries name	Percentage of equity	
	2011	2010
Tadhamon Capital B.S.C - Bahrain	99.9%	99.9%
Tadhamon Real Estate Ltd.-Yemen	95.0%	95.0%
Al-Wedad for Trading and Investment - Yemen	95.0%	95.0%

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

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 authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Bank.

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

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and de-recognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning January 1, 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

The Bank's Management has yet to assess the impact of this new standard on the financial statements of the Bank. However, they do 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 10 Consolidated Financial Statements (IFRS 10)

IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements (IAS 27) and SIC 12 Consolidation – Special Purpose Entities. It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same.

IFRS 11 Joint Arrangements (IFRS 11)

IFRS 11 supersedes IAS 31 Interests in Joint Ventures (IAS 31). It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. In addition, IAS 31's option of using proportionate consolidation for joint ventures has been eliminated. IFRS 11 now requires the use of the equity accounting method, which is currently used for investments in associates.

IFRS 12 Disclosure of Interests in Other Entities (IFRS 12)

IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

Consequential amendments to IAS 27 and IAS 28 Investments in Associates and Joint Ventures (IAS 28)

IAS 27 now only deals with separate financial statements. IAS 28 brings investments in joint ventures into its scope. However, IAS 28's equity accounting methodology remains unchanged.

IFRS 13 Fair Value Measurement (IFRS 13)

IFRS 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after January 1, 2013. The Bank's management has yet to assess the impact of this new standard.

Amendments to IAS 1 Presentation of Financial Statements (IAS 1 Amendments)

The IAS 1 Amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs:

- (a) will not be reclassified subsequently to profit or loss and
- (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after July 1, 2012. The Bank's management expects this won't change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

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 amended version of IAS 19 is effective for financial years beginning on or after January 1, 2013. The Bank's management has yet to assess the impact of this revised standard on the Bank's financial statements.

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 agreed upon profits stated in Murabaha and Istisna'a contracts.

In order to comply with the requirements of CBY, provision is provided for specific debts and contingent liabilities, in addition to a percentage for general risk calculated on the total of 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%
<u>Non-performing debts</u>	
Substandard debts	15%
Doubtful debts	45%
Bad debts	100%

Debts relating to financing Murabaha and Istisna'a transactions are written off if procedures taken toward their collection prove useless, or if directed by CBY examiners upon review of the portfolio. Proceeds from debts previously written off in prior years are credited to the provision.

Debts relating to financing Murabaha and Istisna'a transactions, whether short or long term, are presented on the 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%
<u>Non-performing debts</u>	
Substandard debts	15%
Doubtful debts	45%
Bad debts	100%

At the end of each year, the Mudaraba and Musharaka capital is reduced by losses incurred which are charged to the 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 nominal value, and the value of Sukuk is payable in whole value as they mature, and its available for trading in the secondary market, and the accrued revenue is distributed periodically every year.

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 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.

4.16 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.

4.17 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.

4.18 Contingent liabilities and commitments

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

4.19 Cash and cash equivalents

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

4.20 Revenue recognition

a. Murabaha and Istisna'a Financing transactions

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.

b. 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.

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. Commissions' revenues and bank services

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

d. 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. 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. Ijarah Muntahia Bittamleek

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

4.21 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.

4.22 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.

4.23 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.

4.24 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.

4.25 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.

	Dec. 31, 2011		Dec. 31, 2010	
	Net Book Value	Net Fair Value	Net Book Value	Net Fair Value
	YR 000s	YR 000s	YR 000s	YR 000s
Financial asset				
Cash on hand and reserve balance with the CBY	47,028,799	47,028,799	58,938,687	58,938,687
Due from banks and financial institutions	50,230,489	50,230,489	46,483,649	46,483,649
Murabaha financing transactions, net	39,968,834	39,968,834	75,548,759	75,548,759
Istisna'a financing transactions, net	11,300,094	11,300,094	8,209,034	8,209,034
Investments in Mudaraba contracts, net	24,188,905	24,188,905	16,226,730	16,226,730
Investments in Musharaka contracts, net	13,686,567	13,686,567	10,895,795	10,895,795
Ijarah Muntahia Bittamleek, net	305,867	305,867	532,999	532,999
Investments in real estate, net	115,512,736	115,512,736	109,808,719	109,808,719
Available for sale investments, net	42,692,874	42,692,874	39,523,123	39,523,123
Held-for-trading investments	868,377	868,377	1,501,320	1,501,320
Investments in associates	-	-	61,761	61,761
Investments in Islamic Sukuk	1,148,575	1,148,575	-	-
Restricted investments	358,023	358,023	390,519	390,519
Financial liabilities				
Current accounts and other deposits	71,411,981	71,411,981	82,615,807	82,615,807
Due to banks and financial institutions	6,722,920	6,722,920	37,680	37,680
Unrestricted investments and saving accounts	212,437,860	212,437,860	240,362,700	240,362,700

- 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 ongoing 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 analyze, 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, 2011 YR 000s	Dec. 31, 2010 YR 000s
Cash on hand and reserve balances CBY (excluding cash on hand and ATM)	29,716,097	42,247,648
Due from banks and financial institutions	50,230,489	46,483,649
Murabaha financing transactions, net	39,968,834	75,548,759
Istisna'a financing transactions, net	11,300,094	8,209,034
Investments in Mudaraba contracts, net	24,188,905	16,226,730
Investments in Musharaka contracts, net	13,686,567	10,895,795
Ijarah Muntahia Bittamleek, net	305,867	532,999
Investments in real estate, net	115,512,736	109,808,719
Available for sale investments, net	42,692,874	39,523,123
Held-for-trading investments	868,377	1,501,320
Investments in associates	-	61,761
Investments in Islamic Sukuk	1,148,575	-
Restricted investments	358,023	390,519
Debit balances and other assets	6,045,932	7,041,939
	336,023,370	358,471,995
Contingent liabilities and commitments	66,271,325	66,262,500
Total credit exposure	402,294,695	424,734,495

The Group manages concentration of risk by distributing the portfolio and contingent liabilities and commitments over diversified economic sectors and geographical locations. Note no. 46 shows the distribution of assets, liabilities, contingent liabilities and commitment based on economic sectors and Note no. 47 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	2011					Total YR 000s
	Less than 3 Months YR 000s	From 3 Months to 6 Months 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	10,616,410		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

Liabilities	2010					Total YR 000s
	Less than 3 Months YR 000s	From 3 Months to 6 Months YR 000s	From 6 Months to 1 Year YR 000s	Over 1 Year YR 000s		
Due to banks and financial institutions	37,680	-	-	-		37,680
Current accounts and other deposits	26,148,412	32,257,841	11,927,540	12,262,014		82,615,807
Unrestricted investments and saving account's Holders	49,401,057	65,774,290	65,865,380	59,321,973		240,362,700
Restricted investments	-	-	390,519	-		390,519
Total liabilities	75,587,149	98,032,131	78,183,439	71,603,987		323,406,706

In addition to the above, Note no. (45) 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	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	Swissair Frank YR 000s	Sudanese Pound YR 000s	Jordanian Dinar YR 000s	2011 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

	US dollar YR 000s	EURO YR 000s	2010 Saudi Rial YR 000s	Sterling Pound YR 000s	UAE Dirham YR 000s	Bahrain Dinar YR 000s
Assets	150,619,166	6,259,733	29,591,927	3,680,522	32,709,322	6,637,192
Liabilities	133,890,179	4,588,592	20,976,391	309,433	125,800	-
Net currency position	16,728,987	1,671,141	8,615,536	3,371,089	32,583,522	6,637,192

	2010 Japanese YEN YR 000s	Kuwaiti Dinar YR 000s	Swissair Frank YR 000s	Sudanese Pound YR 000s	Total YR 000s
Assets	81,000	1,688,070	5,247	8,125,234	239,397,413
Liabilities	40,108	-	34,894	-	159,965,397
Net currency position	40,892	1,688,070	(29,647)	8,125,234	79,432,016

Note 48 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, 2011 YR 000s	Dec. 31, 2010 YR 000s
Core capital	32,140	38,369
Supplementary capital	1,243	2,010
Total capital	33,383	40,379
Risk-weighted assets and liabilities:		
Total assets	247,849	224,199
Contingent liabilities and commitments	24,677	40,965
Total risk-weighted assets and liabilities	272,526	265,164
Capital adequacy ratio	12.25%	%15,23

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, 2011 YR 000s	Dec. 31, 2010 YR 000s
Cash on hand and ATM machines – local currency	5,004,826	4,842,127
Cash on hand and ATM machines – foreign currency	12,307,876	11,848,912
	17,312,702	16,691,039
Reserve balances at CBY – local currency	9,592,813	9,213,806
Reserve balances at CBY – foreign currency	20,123,284	33,033,842
	29,716,097	42,247,648
	47,028,799	58,938,687

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 effective from April 1, 2008, the percentage of reserve balances held at CBY on Yemeni Rial 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, 2011 YR 000s	Dec. 31, 2010 Restated YR 000s
Central Bank of Yemen		
Current account –local currency	6,107,290	13,063,454
Current account –foreign currency	4,800,352	1,380,636
	10,907,642	14,444,090
Foreign Banks		
Current account	23,384,703	12,640,635
Deposits with Islamic financial institutions	15,938,144	19,398,924
	39,322,847	32,039,559
	50,230,489	46,483,649

9. Murabaha financing transactions, net

This item consists of the following as of December 31:

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 Restated YR 000s
Murabaha financing transactions	45,063,073	80,260,762
Less: Murabaha financing transactions provision (Note 10)	(3,503,041)	(1,479,709)
Less: Deferred revenues	(1,591,198)	(3,232,294)
	39,968,834	75,548,759

Non-performing Murabaha financing transactions amounting to YR 3,981,919 thousand at December 31, 2011(2010: YR 1,228,558 thousand). The breakup of the above amount is as follows:

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Substandard debts	98,697	524,068
Doubtful debts	383,031	135,965
Bad debts	3,500,191	568,525
	3,981,919	1,228,558

10. Murabaha transactions provision

This item consists of the following as of December 31:

	Specific YR 000s	2011 General YR 000s	Total YR 000s	Specific YR 000s	2010 General YR 000s	Total YR 000s
Balance at January 1,	728,663	751,046	1,479,709	648,471	643,693	1,292,164
Provided during the year	2,394,438	(370,129)	2,024,309	80,507	107,353	187,860
Provision used during the year	(977)	-	(977)	(315)	-	(315)
Balance at December 31,	3,122,124	380,917	3,503,041	728,663	751,046	1,479,709

11. Istisna'a financing transactions, net

This item consists of the following as of December 31:

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Istisna'a financing transactions	12,748,321	8,863,633
Less: Istisna'a financing transactions provision (Note 12)	(164,407)	(82,920)
Less: Deferred revenues	(1,283,820)	(571,679)
	11,300,094	8,209,034

Non-performing Istisna'a financing transaction amounting to YR 9,418 thousand at December 31, 2011(2010: Nil). The breakup of the above amount is as follows:

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Substandard debts	8,290	-
Bad debts	1,128	-
	9,418	-

12. Istisna'a financing transactions provision

This item consists of the following as of December 31:

	2011			2010		
	Specific YR 000s	General YR 000s	Total YR 000s	Specific YR 000s	General YR 000s	Total YR 000s
Balance at January 1,	-	82,920	82,920	-	68,678	68,678
Provided during the year	5,178	76,309	81,487	-	14,242	14,242
Balance at December 31,	5,178	159,229	164,407	-	82,920	82,920

13. Investments in Mudaraba contracts , net

This item consists of the following as of December 31:

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Investments in Mudaraba contracts - foreign	20,825,758	18,140,418
Investments in Mudaraba contracts - local	4,499,197	5,196,126
	25,324,955	23,336,544
Less: Investments in Mudaraba contracts provision (Note 14)	(1,136,050)	(7,109,814)
	24,188,905	16,226,730

14. Investments in Mudaraba contracts provision

This item consists of the following as of December 31:

	Specific YR 000s	General YR 000s	2011 Total YR 000s	Specific YR 000s	General YR 000s	2010 Total YR 000s
Balance at January 1,	7,046,985	62,829	7,109,814	6,527,880	137,355	6,665,235
Provided during the year	489,425	10,041	499,466	886,603	-	886,603
Transferred from general to specific provision	52,788	(52,788)	-	74,526	(74,526)	-
Used during the year	(6,473,230)	-	(6,473,230)	(312,652)	-	(312,652)
Provision reversed	-	-	-	(129,372)	-	(129,372)
Balance at December 31,	1,115,968	20,082	1,136,050	7,046,985	62,829	7,109,814

15. Investments in Musharaka contracts, net

This item consists of the following as of December 31:

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Investments in Musharaka contracts - foreign	12,394,680	9,068,019
Investments in Musharaka contracts - local	1,873,113	2,694,420
	14,267,793	11,762,439
Less: Investments in Musharaka contracts provision (Note 16)	(581,226)	(866,644)
	13,686,567	10,895,795

16. Investments in Musharaka contracts provision

This item consists of the following as of December 31:

	Specific YR 000s	General YR 000s	2011 Total YR 000s	General YR 000s	Specific YR 000s	2010 Total YR 000s
Balance at January 1,	842,782	23,862	866,644	710,914	90,292	801,206
Provided during the year	-	-	-	506,299	-	506,299
Transferred from general to specific provision	-	-	-	66,430	(66,430)	-
Provisions used during the year	-	-	-	(128,264)	-	(128,264)
Provisions reversed	(241,578)	(43,840)	(285,418)	(312,597)	-	(312,597)
Balance at December 31,	601,204	(19,978)	581,226	842,782	23,862	866,644

17. Ijarah Muntahia Bittamleek, net

This item consists of the following as of December 31:

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Total cost	306,433	534,253
Less: Deferred revenues	(566)	-
Less: Accumulated depreciation	-	(1,254)
Net book value	305,867	532,999

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. The balance as at December 31, 2010 represents the cost of 180 cars leased to various entities according to Ijarah Muntahia Bittamleek contracts that end in 2013.

18. Investments in real estate, net

This item consists of the following as of December 31:

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Investments in real estate – foreign	91,405,876	82,513,338
Investments in real estate – local	12,774,904	12,394,303
	104,180,780	94,907,641
Add: Change in fair value (unrealized gain)	11,331,956	14,901,078
	115,512,736	109,808,719

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.

19. Available for sale investments, net

This item consists of the following as of December 31:

	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

	Quoted YR 000s	Unquoted YR 000s	2010 Total YR 000s
Available for sale investments – foreign	3,278,224	36,121,833	39,400,057
Available for sale investments – local	-	2,800,008	2,800,008
	3,278,224	38,921,841	42,200,065
Unrealized gain	(7,111)	88,758	81,647
Less: change in fair value (unrealized loss)	(423,403)	(2,335,186)	(2,758,589)
	2,847,710	36,675,413	39,523,123

Available-for-sale investments (unquoted) as at December 31, 2011 included YR000s: 20,404,781 (2010: YR000s: 8,346,784) 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.

20. Held-for-trading investments

This item consists of the following as of December 31:

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Opening balance at January 1,	1,501,320	282,408
Additions during the year	3,143,624	2,059,924
Disposals during the year	(3,467,112)	-
Unrealized fair value recognized in the consolidated statement of comprehensive income	(309,455)	(868,191)
Foreign exchange rates differences	-	27,179
	868,377	1,501,320

21. Investments in associates

This item consists of the following as of December 31:

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Islamic Co. for Payments Ltd. (Yemen)	-	18,883
Less: Impairment in value of investments	-	(18,883)
	-	-
Tadhamon Group Holding Ltd. (United Arab Emirates)	61,761	51,956
(Less) add: Group share in the net assets of the associate	(61,761)	9,805
	-	61,761

22. Debit balances and other assets, net

This item consists of the following as of December 31:

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Assets which titles have been transferred to the bank	2,839,092	2,799,391
Project under processing	906,228	1,667,931
Stationery inventory	117,973	89,499
Advances to employees	68,416	75,232
Prepaid expenses	54,007	61,320
Equipment in stores	27,982	27,567
Overdraft accounts	-	255,915
Other debit balances	2,505,884	2,270,870
	6,517,582	7,247,725
Less: provision for doubtful debts (Note 23)	(471,650)	(205,786)
	6,045,932	7,041,939

23. Provision for doubtful debts

This item consists of the following as of December 31:

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Opening balance at January 1,	205,786	187,082
Provided during the year	265,864	18,704
Balance at December 31,	471,650	205,786

24. 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, 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
Gross carrying amount							
January 1, 2010	2,497,247	2,055,296	771,735	377,761	287,245	826,148	6,815,432
Additions	816,343	418,473	190,637	100,756	46,444	128,862	1,701,515
Disposals	(1,786,116)	-	(33,485)	(102,006)	(6,286)	(28,300)	(1,956,193)
Foreign exchange differences	-	-	947	697	4,630	2,492	8,766
Balance as of December 31, 2010	1,527,474	2,473,769	929,834	377,208	332,033	929,202	6,569,520
Accumulated depreciation							
January 1, 2010	-	83,049	396,523	145,836	114,419	477,323	1,217,150
Depreciation	-	54,010	105,841	87,499	66,215	148,354	461,919
Disposals	-	-	(29,057)	(57,220)	(4,645)	(19,961)	(110,883)
Foreign exchange differences	-	-	326	116	2,170	647	3,259
Balance as of December 31, 2010	-	137,059	473,633	176,231	178,159	606,363	1,571,445
Carrying amount as of December 31, 2010	1,527,474	2,336,710	456,201	200,977	153,874	322,839	4,998,075

25. Current accounts and other deposits

This item consists of the following as of December 31:

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Current accounts	65,318,229	73,062,201
Cash deposits	5,386,553	8,388,926
Other deposits	707,199	1,164,680
	71,411,981	82,615,807

26. Due to banks and financial institutions

This item consists of the following as of December 31:

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Local banks	4,489,800	-
Foreign banks – current accounts	2,233,120	37,680
	6,722,920	37,680

27. Credit balances and other liabilities

This item consists of the following as of December 31:

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Accrued taxes	114,870	5,793
Accrued expenses	10,943	103,800
Prohibited revenues by Islamic Sharia'a (Note 28)	9,500	6,433
Instalments of Ijarah Muntahia Bittamleek	-	38,422
Creditor and sundry credit balances	4,290,348	3,365,408
	4,425,661	3,519,856

28. Prohibited revenues by islamic sharia'a

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

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Opening balance at January 1,	6,433	1,164
Net revenues during the year	7,261	5,334
Total of revenue	13,694	6,498
Less: Donations	(4,194)	(65)
Balance at December 31,	9,500	6,433

29. 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, 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

	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, 2010 YR 000s
Provision for contingent liabilities	512,026	158,675	(315)	-	670,386
Provision for end of service benefits	165,826	146,366	(121,047)	-	191,145
Provision for contingent claims	900,000	-	(562,347)	-	337,653
	1,577,852	305,041	(683,709)	-	1,199,184

30. Unrestricted investments and saving accounts' holders

This item consists of the following as of December 31:

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Saving accounts - local currency	32,600,041	36,871,311
Saving accounts - foreign currency	32,441,764	50,730,839
	65,041,805	87,602,150
Deposits for more than one year - local currency	71,419,855	64,081,491
Deposits for more than one year - foreign currency	64,218,936	71,080,598
	135,638,791	135,162,089
Return for unrestricted investments and saving accounts (Note 31)	11,757,264	17,598,461
	212,437,860	240,362,700

31. 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:

	2011		2010	
	Local Currency %	Foreign Currency %	Local Currency %	Foreign Currency %
Ongoing deposits	10.12	3.09	14.50	5.20
Saving accounts	5.95	1.74	8.52	2.92

32. 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, 2011 YR 000s	Dec. 31, 2010 YR 000s
Paid up capital	20,000,000	20,000,000
	20,000,000	20,000,000

33. 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. However, in view of the loss incurred for the year no transfer was made to this reserve. 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, 2011 YR 000s	Dec. 31, 2010 YR 000s
Balance at January 1,	15,900,069	15,900,012
Share premium	-	57
Balance at December 31,	15,900,069	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.

34. 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). Due to the loss for the year no transfer was made to this reserve.

35. Other reserves

This item consists of the following as of December 31:

	Balance at Jan. 1 YR 000s	Provided 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

36. Contingent liabilities and commitments, net

This item consists of the following as of December 31:

	Gross Commitments YR 000s	2011 Margin Held YR 000s	Net Commitment YR 000s	Gross Commitment YR 000s	2010 Margin Held YR 000s	Net Commitment YR 000s
Letters of credit	45,845,507	(2,817,143)	43,028,364	8,717,320	(15,454)	8,701,866
Letters of guarantee	20,402,741	(2,362,148)	18,040,593	31,408,427	(4,850,111)	26,558,316
L/Cs for Murabaha contracts	5,378,811	(176,443)	5,202,368	34,526,505	(3,524,187)	31,002,318
	71,627,059	(5,355,734)	66,271,325	74,652,252	(8,389,752)	66,262,500

37. Revenue of Murabaha and Istisna'a financing transactions

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

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Revenue of Murabaha contracts financing transactions	5,947,255	6,687,181
Revenue of Istisna'a contracts financing transactions	1,448,338	1,093,819
	7,395,593	7,781,000

38. Revenue from other joint investments

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

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Profits from real estate investments	5,736,003	124,064
Profits from investments in Musharaka contracts	1,157,633	93,920
Profits from available-for-sale investments	655,071	-
Profits from investments in Murabaha contracts	11,823	94,375
Profits from other investments	2,440,515	3,808,156
	10,001,045	4,120,515

39. Commissions, revenue and bank service charges

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

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Commissions on documentary credits	728,063	870,298
Commissions on letters of guarantee	261,996	332,634
Commissions on foreign investments	223,636	129,798
Commissions on funds transfers	112,621	100,579
Commissions on Cheques collection	26,764	30,235
Other fees and commissions	588,284	401,523
	1,941,364	1,865,067

40. Foreign currencies exchange (loss) gain

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

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
(Loss) gain of dealing in foreign currencies	(1,279,155)	283,685
(Loss) gain from re-evaluation of balances in foreign currencies	(17,826)	4,441,022
	(1,296,981)	4,724,707

41. Other operating income

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

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Provisions reversed	374,421	263,721
Net revenue from Tadhamon Trading Center	-	56,810
Others	72,064	281,417
	446,485	601,948

42. Provisions

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

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Murabaha contracts financing transactions provision	2,024,390	187,860
Istisna'a contracts financing transactions provision	81,487	14,242
Mudaraba contracts investments provision	499,466	886,600
Musharaka contracts investments provision	-	506,299
Provision for contingent liabilities	-	158,675
Provision for contingent claims	-	25,319
Others	265,783	-
	2,871,126	1,778,995

43. General and administration expenses and depreciation

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

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Salaries and wages	2,909,501	2,379,041
Depreciation	555,191	436,485
Rent	261,582	220,444
Taxes and duties	258,737	20,871
Cleaning and security expenses	146,977	65,257
Insurance	109,891	102,034
Zakat	107,923	-
Repairs and maintenance	103,997	70,321
Utilities	93,802	111,018
Advertisements	78,860	173,424
Subscriptions	70,860	317,018
Stationery	51,364	67,919
Donations	44,077	60,876
Vehicles expenses	41,118	20,350
Communications	38,397	49,230
Professional fees	34,952	31,268
Transportation	27,538	160,765
Information technology expenses	22,989	76
Hospitality expenses	5,060	5,293
Studies expenses	-	31,722
Other expenses	471,055	376,293
	5,433,871	4,699,705

44. (Losses) earnings per share

	Dec. 31, 2011	Dec. 31, 2010
Net (loss) profit for the year (YR000s)	(1,825,924)	328,610
Weighted average of number of shares	20,000	20,000
(Losses) earnings per share	(91.3)	16.4

45. Maturities of financial assets and liabilities

	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 in 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 financing transactions, net	20,312	13,868	2,132	3,657	39,969
Istisna'a 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	-	-	-	868	868
Investments in Islamic Sukuk	-	-	1,149	-	1,149
Investments in associates	-	-	-	-	-
	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 equity	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

	Due within 3 months YR Million	Due from 3 to 6 months YR Million	2010 Due from 6 months to one year YR Million	Due over one year YR Million	Total YR Million
Assets					
Cash in hand and reserve balances with CBY	14,877	19,864	12,784	11,414	58,939
Due from banks and financial institutions	11,337	13,281	11,653	10,385	46,656
Murabaha financing transactions, net	38,136	26,037	4,004	6,866	75,043
Istisna'a financing transactions, net	645	4,201	2,274	1,089	8,209
Investments in Mudaraba contracts, net	3,938	1,972	3,168	7,148	16,226
Investments in Musharaka contracts, net	-	1,853	4,789	4,253	10,895
Ijarah Muntahia Bittamleek, net	42	65	189	237	533
Investments in real estate, net	109,809	-	-	-	109,809
Available for sale investments, net	-	-	-	39,523	39,523
Held-for-trading investments	-	-	-	1,501	1,501
Investments in associates	-	-	-	62	62
	178,784	67,273	38,861	82,478	367,396
Liabilities					
Current accounts and other deposits	26,148	32,258	11,928	12,928	83,262
Unrestricted investments and saving accounts' holders	49,792	65,774	65,865	58,932	240,363
Due to bank and financial institutions	38	-	-	-	38
	75,978	98,032	77,793	71,860	323,663
	102,806	(30,759)	(38,932)	10,618	43,733

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

	2011						Total YR Million
	Financial YR Million	Manufacturing YR Million	Trade YR Million	Constructions YR Million	Services YR Million	Individual & Other 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	5,585	-	8,056	-	-	45	13,687
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
Ijarah Murabahah Bittamleek, net	-	-	306	-	-	-	306
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

	2010						Total YR Million
	Financial YR Million	Manufacturing YR Million	Trade YR Million	Constructions YR Million	Services YR Million	Individual & Other YR million	
Assets							
Cash on hand and reserve balances with CBY	58,939	-	-	-	-	-	58,939
Due from banks and financial institutions	46,656	-	-	-	-	-	46,656
Murabaha financing transactions	-	17,562	43,182	9,885	2,547	1,867	75,043
Istisna'a financing transactions	-	7,636	-	-	-	573	8,209
Investments in Mudaraba contracts	11,116	4,734	311	-	15	50	16,226
Investments in Musharaka contracts	9,269	-	1,551	-	-	75	10,895
Investments in real estate, net	99,238	-	-	10,571	-	-	109,809
Available for sale investments	39,428	-	-	-	-	-	39,428
Held-for-trading investments	-	-	533	-	-	-	533
Investments in associates	62	-	-	-	-	-	62
Liabilities							
Current accounts and other deposits	-	22,632	25,616	-	2,928	31,507	82,683
Unrestricted investments and saving accounts' holders	-	6,220	12,447	-	28,963	193,123	240,753
Due to banks and financial institutions	38	-	-	-	-	-	38
Contingent liabilities							
Letters of guarantee	6,663	11,026	12,937	2,893	1,756	-	35,264
Letters of credit	-	-	35,647	32,126	-	-	67,733
L/Cs for Murabaha contracts	-	-	10,368	6,536	-	-	16,904

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

	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
Investments in associates	-	-	-	-	-	-
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
L/Cs for Murabaha contracts	4,062	-	205	645	290	5,202

	2010					
	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	58,939	-	-	-	-	58,939
Due from banks and financial institutions	12,537	1,324	3,670	28,972	53	46,656
Murabaha financing transactions, net	75,043	-	-	-	-	75,043
Istisna'a financing transactions, net	8,209	-	-	-	-	8,209
Investments in Mudaraba contracts, net	-	57	721	12,508	2,940	16,226
Investments in Musharaka contracts, net	1,626	359	733	8,178	-	10,896
Ijarah Muntahia Bittamleek, net	533	-	-	-	-	533
Investments in real estate, net	10,571	-	1,822	95,153	2,263	109,809
Available for sale investments, net s	-	224	1,911	28,031	9,357	39,523
Held-for-trading investments	-	-	-	1,501	-	1,501
Investments in associates	-	-	-	62	-	62
Liabilities						
Current accounts and other deposits	82,616	-	-	-	-	82,616
Unrestricted investments and saving accounts' holders equity	340,753	-	-	-	-	340,753
Due to bank and financial institutions	-	-	-	38	-	38
Contingent liabilities						
Letters of guarantee	21,842	-	1,103	3,468	1,561	26,558
Letters of credit	-	5,771	7,127	8,300	1,900	23,098
L/Cs for Murabaha contracts	58,939	441	2,517	7,687	642	11,287
		-	-	-	-	58,939

48. 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.

	2011		2010	
	Surplus (Deficit) YR 000s	% of Capital & reserves	Surplus (Deficit) YR 000s	% of Capital & reserves
US Dollar	13,084	%41.00	16,729	%45.00
Euro	3,212	%10.00	1,671	%4.53
Saudi Rial	19,989	%62.00	8,616	%23.40
Sterling Pound	2,976	%9.00	3,371	%9.14
Dirham – UAE	32,363	%101.00	32,583	%88.35
Dinar – Bahrain	6,647	%21.00	6,637	%18.00
Yen – Japan	55	%0.20	40	%0.11
Dinar – Jordan	311	%1.00	312	%0.85
Dinar – Kuwait	1,708	%5.00	1,688	%4.58
Frank – Swiss	22	%0.10	(30)	(%0.08)
Pound – Sudan	6,117	%19.00	8,125	%22.00
Total	86,484	%269	79,742	%215.03

49. 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	2011 YR Million	2010 YR Million
Direct and indirect financing	43,776	9,432	53,208	66,407
Current and saving accounts	13,019	649	13,668	56,588
Investments in associates	-	-	-	52
Revenue and commission received	2,792	113	2,905	1,688
Compensations	-	29	29	64

50. 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.

51. 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.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in notes 5, 9, 11, 13, 15, 27, and 29.

52. 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 2009, according to the Zakat declaration. No assessment notification was issued by the Zakat Department.

53. Correction of error with retrospective application

The Bank's management had prepared and presented certain items of the financial statements for the year ended December 31, 2010 by using the cash basis and this contradicts with the requirements of International Financial Reporting Standards and Accounting Standards for Islamic Financial Institutions, accordingly, it has been measuring the impact of re-presenting these items in the financial statements for the year 2010, by using the accrual basis and below are the impact on the relevant items:

Description	2010 YR000s
Increase in Murabaha financing transactions	507,515
Decrease in due from banks and financial institutions (foreign banks - current accounts)	(172,541)
Increase in deferred income and Murabaha financing transactions	(12,189)
Increase in credit balances of Murabaha	(332,785)

54. Approval of financial statements

The consolidated financial statements for the year ended December 31, 2011 (including comparatives) were approved by the board of directors on June 24, 2012.

The Separate Financial Statements For Tadhamon International Islamic Bank

1) Separate Statement of Financial Position

December 31, 2011

	Dec. 31, 2011	Dec. 31, 2010
	YR 000s	Restated YR 000s
Assets		
Cash on hand and reserve balances with Central Bank of Yemen	47,024,623	59,005,309
Due from bank and financial institutions	47,625,129	42,939,070
Murabaha financing transactions, net	39,968,834	75,043,433
Istisna'a financing transactions, net	11,300,094	8,209,034
Investments in Mudaraba contracts, net	24,203,350	16,226,730
Investments in Musharaka contracts, net	13,686,567	10,895,795
Ijarah Muntahia Bittamleek, net	305,867	532,999
Investments in real estate, net	115,512,736	109,808,719
Available for sale investments, net	42,652,288	36,557,320
Investments in associates	-	6,431,983
Investments in Islamic Sukuk	1,148,575	-
Qard Hasan, net	233	16,173
Restricted investments	358,023	390,519
Debit balances and other assets, net	4,699,296	5,342,369
Property and equipment, net	4,739,859	4,842,386
Total assets	353,225,474	376,241,839
Liabilities, investments accounts' holders and shareholders' equity		
Liabilities		
Current accounts and other deposits	70,801,441	82,682,708
Due to banks and financial institutions	6,722,920	37,680
Credit balances of Murabaha	22,250	821,763
Credit balances and other liabilities	4,062,560	2,815,761
Other provisions	887,087	1,635,085
Total liabilities	82,496,258	87,992,997
Investments accounts' holders equity		
Unrestricted investments and saving accounts' holders	212,437,860	240,362,700
Restricted investments accounts	358,023	390,519
Total investments accounts' holders equity	212,795,883	240,753,219
Shareholders' equity		
Share capital	20,000,000	20,000,000
Statutory reserve	15,651,874	15,651,874
General reserve	261,246	981,928
Other reserves	25,465,056	11,942,497
Retained deficit	(3,444,843)	(1,080,676)
Total equity attributable to equity holders of parent	57,933,333	47,495,623
Total liabilities, investments accounts' holders and shareholders' equity	353,225,474	376,241,839
Contingent liabilities and commitments, net	66,271,325	66,262,500

2) Separate Statement of Comprehensive Income

For the year ended December 31, 2011

	Dec. 31, 2011 YR 000s	Dec. 31, 2010 YR 000s
Revenue of Murabaha and Istisna'a financing transactions	7,395,593	7,781,000
Revenue from other joint investments	8,486,656	1,681,900
	15,882,249	9,462,900
Less:		
Return on unrestricted investments and saving accounts' holders equity	(11,757,264)	(17,598,461)
	4,124,985	(8,135,561)
Commissions and bank service charges revenue	1,941,364	1,865,067
Less: Commission expenses on bank service charges	(46,345)	(56,306)
Foreign currencies exchange (loss) gain	(1,437,182)	4,724,707
Gain of investments in associates	28,387	4,180,154
Impairment of available for sale investments	(312,068)	(720,201)
Unrealized gain from investments in real estate	-	2,022,961
Other operating income	453,519	594,018
Operating profit	4,706,660	4,474,839
Less:		
Provisions	(2,871,126)	(1,778,995)
General and administration expenses and depreciation	(4,199,701)	(3,668,214)
Impairment of assets which titles have been transferred to the Bank	-	(16,840)
Net loss for the year	(2,364,167)	(989,210)