



بنك التضامن الإسلامي الدولي

Tadhamon International Islamic Bank



التقرير السنوي
ANNUAL REPORT

2016

**TADHAMON INTERNATIONAL ISLAMIC BANK
(Yemeni Joint Stock Company)
SANA'A, REPUBLIC OF YEMEN**

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
AND INDEPENDENT AUDITOR'S REPORT**

**TADHAMON INTERNATIONAL ISLAMIC BANK
(Yemeni Joint Stock Company)
SANA'A, REPUBLIC OF YEMEN**

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
AND INDEPENDENT AUDITOR'S REPORT**

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English Translation of the Original Arabic Text

INDEPEDENT AUDITOR'S REPORT

**TO THE SHAREHOLDERS OF
TADHAMON INTERNATIONAL ISLAMIC BANK
(Yemeni Joint Stock Company)
SANA'A, REPUBLIC OF YEMEN**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Tadhamon International Islamic Bank (Yemeni Joint Stock Company) (the Bank), and its subsidiaries (together referred to as the "Group") which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated income statement, consolidated statement of changes in equity, consolidated statement of cash flows, consolidated statement of sources and uses of Qard Hasan Fund and consolidated statement of changes in restricted investment accounts for the year then ended, and a summary of significant accounting policies and other explanatory information. The preparation of these consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a rules, principles and instructions issued by Central Bank of Yemen are the responsibility of the management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organization for Islamic Financial Institutions "AAOIFI". Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation.

We believe that our audit provides a reasonable basis for our 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, 2016, and of its consolidated results of operations, its consolidated cash flows, its consolidated changes in equity, its consolidated sources and uses of Qard Hasan Fund and its consolidated changes in restricted investment accounts for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI, the Shari'a rules and principles as determined by the Shari'a supervisory board and instructions issued by Central Bank of Yemen.

Emphasis of Matter

We draw attention to Note (53) to the consolidated financial statements which describes the impact of the continuing economic crisis and political turmoil in Yemen and their final resolution are unpredictable and may adversely affect the Yemeni economy and the operations of the Group. Our opinion is not qualified in respect of this matter.

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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 agreement with these books.

We are not aware of any violations of Law No. 21 of 1996 regarding to Islamic Banks amended by Law No 16 of 2009 or Banking Law No. 38 of 1998 and Yemen Commercial Companies Law No. 22 of 1997 and its amendments having occurred during the year ended December 31, 2016 which might have had a material effect on the business of the Group or its financial position.

M. Zohdi Mejanni
Associated Accountant

Sana'a, June 22, 2017



English Translation of the Original Arabic Text

**TADHAMON INTERNATIONAL ISLAMIC BANK
(Yemeni Joint Stock Company)**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2016**

	Note	2016 YR 000s	2015 YR 000s
Assets			
Cash on hand and reserve balances with Central Bank of Yemen (CBY)	9	38,284,339	44,901,774
Due from banks and financial institutions	10	133,095,633	108,317,628
Financing Murabaha and Istisna'a transactions (net)	11	28,898,883	35,088,898
Musharaka investment contracts (net)	13	-	-
Mudaraba investment contracts (net)	15	29,394,599	31,335,303
Investment in Islamic Sukuk	17	60,125,518	89,309,980
Investment securities	18	39,162,790	35,563,089
Investments in real estate	19	161,264,445	134,448,430
Ijarah Muntahia Bittamleek receivables (net)	20	23,589	15,726
Qard Hasan (net)		2,606	2,794
Debit balances and other assets (net)	21	6,603,270	14,660,339
Property and equipment (net)	23	4,845,723	5,388,023
Total assets		501,701,395	499,031,984
Liabilities, investment accounts' holders and equity			
Liabilities			
Due to banks and financial institutions		6,073,183	2,017,420
Current accounts and other deposits	24	127,810,199	141,602,348
Credit balances and other liabilities	25	7,161,350	6,031,393
Other provisions	27	618,143	304,572
Total liabilities		141,662,875	149,955,733
Equity of unrestricted investment and saving accounts' holders	28	288,031,113	290,020,395
Total liabilities and investment accounts' holders		429,693,988	439,976,128
Equity			
Share capital	30	20,000,000	20,000,000
Statutory reserve	31.a	17,588,148	16,616,321
General reserve	31.b	261,246	261,246
Other reserves	31.c	32,245,561	25,416,372
Retained earnings (loss)		1,896,376	(3,246,035)
Total equity attributable to shareholders of the Bank		71,991,331	59,047,904
Non - controlling interest		16,076	7,952
		72,007,407	59,055,856
Total liabilities, investment accounts' holders and equity		501,701,395	499,031,984
Contingent liabilities and commitments (net)	32	18,602,482	24,278,088

The attached notes on pages 10 to 64 are an integral part of these consolidated financial statements. Independent auditor's report is set out on pages 1 and 2.

Basheer Sultan Al-Maktari
Financial Manager

Mahmoud Ata Hassan Al-Refae
General manager

Abdulgabbbar Hayel Saeed
Chairman

English Translation of the Original Arabic Text

**TADHAMON INTERNATIONAL ISLAMIC BANK
(Yemeni Joint Stock Company)**

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Note	2016 YR 000s	2015 YR 000s
Income from financing Murabaha and Istisna'a transactions	33	4,253,565	4,903,238
Income from other joint investments	34	<u>15,160,131</u>	<u>14,156,249</u>
		19,413,696	19,059,487
Less: Return on unrestricted investments and saving accounts' holders		(12,047,752)	(12,696,093)
Bank's share from the income on Murabaha, Musharaka and joint investments		<u>7,365,944</u>	<u>6,363,394</u>
Fees and commission income	35	1,898,573	1,553,621
Less: Fees and commission expenses		(71,642)	(40,385)
Net fees and commission income		<u>1,826,931</u>	<u>1,513,236</u>
		9,192,875	7,876,630
Gains on foreign currency transactions	36	7,568,827	3,990,774
Other operating income	37	<u>406,144</u>	<u>2,423,873</u>
Total operating income		17,167,846	14,291,277
Less:			
Provisions	38	(1,260,292)	(3,832,354)
Loss on sale of investments (realized)	39	-	(3,811,712)
Impairment on investment in real estate	19	(222,485)	(2,455,571)
Impairment provision on investment securities	40	(1,552,820)	(615,022)
Staff costs	41	(2,975,288)	(2,854,887)
Depreciation of property and equipment	23	(715,114)	(726,840)
Other expenses	42	(3,297,108)	(3,223,772)
Net profit (loss) for the year before tax		7,144,739	(3,228,881)
Income tax for the year		(787,496)	-
Net profit (loss) for the year after income tax		<u>6,357,243</u>	<u>(3,228,881)</u>
Attributable to:			
Shareholders of the bank		6,350,433	(3,198,694)
Non-controlling interest		<u>6,810</u>	<u>(30,187)</u>
Net profit (loss) for the year		<u>6,357,243</u>	<u>(3,228,881)</u>
Earnings (loss) per share	43	<u>YR 317.5</u>	<u>(YR 159.93)</u>

The attached notes on pages 10 to 64 are an integral part of these consolidated financial statements. Independent auditor's report is set out on pages 1 and 2.

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TADHAMON INTERNATIONAL ISLAMIC BANK
(Yemeni Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016

	Share Capital YR 000s	Statutory Reserve YR 000s	General Reserve YR 000s	Other Reserves YR 000s	Retained Earnings (loss) YR 000s	Total Equity Attributable to Shareholders of the Bank YR 000s	Non- Controlling Interest YR 000s	Total YR 000s
Year 2016								
Balance at January 1, 2016	20,000,000	16,616,321	261,246	25,416,372	(3,246,035)	59,047,904	7,952	59,055,856
Net profit for the year	-	-	-	-	6,350,433	6,350,433	6,810	6,357,243
Transfer to statutory reserve (proposed)	-	952,565	-	-	(952,565)	-	-	-
Changes in foreign currency	-	19,262	-	87,391	(255,457)	(148,804)	1,314	(147,490)
Changes in fair value	-	-	-	6,741,798	-	6,741,798	-	6,741,798
Balance at December 31, 2016	<u>20,000,000</u>	<u>17,588,148</u>	<u>261,246</u>	<u>32,245,561</u>	<u>1,896,376</u>	<u>71,991,331</u>	<u>16,076</u>	<u>72,007,407</u>
Year 2015								
Balance at January 1, 2015	20,000,000	16,499,262	261,246	19,197,837	101,013	56,059,358	1,552,131	57,611,489
Transfer to statutory reserve	-	117,059	-	-	-	117,059	1,182	118,241
Transfer from non-controlling interest	-	-	-	-	(148,354)	(148,354)	148,354	-
Paid to non-controlling interest	-	-	-	-	-	-	(1,664,928)	(1,664,928)
Changes in foreign currency	-	-	-	(10,900)	-	(10,900)	(30)	(10,930)
Changes in fair value	-	-	-	6,229,435	-	6,229,435	-	6,229,435
Net (loss) for the year	-	-	-	-	(3,198,694)	(3,198,694)	(30,187)	(3,228,881)
Paid to share capital	-	-	-	-	-	-	1,430	1,430
Balance at December 31, 2015	<u>20,000,000</u>	<u>16,616,321</u>	<u>261,246</u>	<u>25,416,372</u>	<u>(3,246,035)</u>	<u>59,047,904</u>	<u>7,952</u>	<u>59,055,856</u>

The attached notes on pages 10 to 64 are an integral part of these consolidated financial statements.
Independent auditor's report is set out on pages 1 and 2.

Basheer Sultan Al-Maktari
Financial Manager

Mahmoud Ata Hassan Al-Refae
General manager

Abdulgabbar Hayel Saeed
Chairman

English Translation of the Original Arabic Text

TADHAMON INTERNATIONAL ISLAMIC BANK
(Yemeni Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Note</u>	<u>2016</u> <u>YR 000s</u>	<u>2015</u> <u>YR 000s</u>
<u>Cash flows from operating activities:</u>			
Net profit (loss) for the year before tax		7,144,739	(3,228,881)
<u>Adjustments for:</u>			
Depreciation of property and equipment	23	715,114	726,840
Provisions charged to the consolidated income statement	38	1,260,292	3,832,354
Provisions used during the year		(31,161)	(2,508,283)
Provisions reversed	37	(327,948)	(2,336,691)
Impairment on investment in real estate		222,485	2,455,571
Net (profit) on sale of property and equipment		(53,196)	(7,302)
Return of unrestricted investment and saving accounts' holders		12,047,752	12,696,093
Impairment provision on investment securities	40	1,552,820	615,022
Foreign currencies translation differences		(150,864)	(10,901)
		22,380,033	12,233,822
<u>Changes in:</u>			
Reserve balances with CBY		24,528	2,075,959
Financing Murabaha and Istisna'a transactions		6,458,531	38,374,070
Musharaka investment contracts		(44,200)	1,489,379
Mudaraba investment contracts		1,613,154	11,522,948
Ijarah Muntahia Bittamleek receivables		(17,616)	2,880,519
Qard Hasan		563	1,244
Debit balances and other assets		7,582,069	(4,984,835)
Current accounts and other deposits		(13,792,149)	12,607,144
Credit balances and other liabilities		342,461	(278,876)
Non-controlling interest		1,314	(1,662,346)
Net cash flows from operating activities (1)		<u>24,548,688</u>	<u>74,259,028</u>
<u>Cash flows from investing activities:</u>			
Changes in investment in Islamic Sukuk		29,184,462	16,008,260
Changes in investment securities		(5,152,521)	(9,713,835)
Changes in real estate investment		(20,296,702)	15,661,222
Cash payments to acquisition of property and equipment		(290,242)	(331,575)
Proceeds from sale of property and equipment		172,684	45,556
Net cash flows from investing activities (2)		<u>3,617,681</u>	<u>21,669,628</u>

TADHAMON INTERNATIONAL ISLAMIC BANK
(Yemeni Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	2016 YR 000s	2015 YR 000s
<u>Cash flows from financing activities:</u>			
Changes in due to banks and financial institutions		4,055,763	1,466,853
Changes in equity of unrestricted investment and saving account's holders		(14,037,034)	(46,198,474)
Increase in reserves (impact of consolidation)		-	117,059
Net cash flows (used in) financing activities (3)		(9,981,271)	(44,614,562)
Net change in cash and cash equivalents (1+2+3)		18,185,098	51,314,094
Cash and cash equivalents at the beginning of the year		<u>118,441,779</u>	<u>67,127,685</u>
Cash and cash equivalents at the end of the year		<u>136,626,877</u>	<u>118,441,779</u>
<u>Cash and cash equivalents at the end of the year consist of:</u>			
Cash on hand and reserve balances with CBY	9	38,284,339	44,901,774
Due from banks and financial institutions	10	<u>133,095,633</u>	<u>108,317,628</u>
		171,379,972	153,219,402
Less: Reserve balances with CBY		(34,753,095)	(34,777,623)
		<u>136,626,877</u>	<u>118,441,779</u>

The attached notes on pages 10 to 64 are an integral part of these consolidated financial statements.
Independent auditor's report is set out on pages 1 and 2.

Basheer Sultan Al-Maktari
Financial Manager

Mahmoud Ata Hassan Al-Refae
General manager

Abdulgabbbar Hayel Saeed
Chairman

TADHAMON INTERNATIONAL ISLAMIC BANK
(Yemeni Joint Stock Company)

CONSOLIDATED STATEMENT OF SOURCES AND USES OF QARD HASAN FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Note</u>	<u>2016</u> <u>YR 000s</u>	<u>2015</u> <u>YR 000s</u>
Balance at the beginning of the year as represented by:			
Outstanding utilized loans		3,222	4,466
Add: Sources of fund			
Transferred from customers' current accounts		3,786	-
Less: Uses of fund			
Paid to customers' current accounts		(4,349)	(1,244)
Balance at the end of the year		2,659	3,222
Less: Provision for Al-Qard Al-Hasan fund		(53)	(428)
		<u>2,606</u>	<u>2,794</u>
The following shows the movement of provision for Al-Qard Al-Hasan fund:			
Balance at the beginning of the year		428	45
Add: Provided during the year	38	-	383
Less: Provisions reversed	37	(375)	-
Balance at the end of the year		<u>53</u>	<u>428</u>

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Basheer Sultan Al-Maktari
Financial Manager

Mahmoud Ata Hassan Al-Refae
General manager

Abdulgabbbar Hayel Saeed
Chirman



English Translation of the Original Arabic Text

TADHAMON INTERNATIONAL ISLAMIC BANK
(Yemeni Joint Stock Company)

**CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT
ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	2016		
	Balance at January 1, 2016 YR 000s	Movements during the year deposits (withdrawal) YR 000s	Balance at December 31, 2016 YR 000s
Investment securities	1,815,595	131,747	1,947,342
Investment in real estate	17,257,007	2,604,363	19,861,370
Other	1,149,959	(428,373)	721,586
Total	20,222,561	2,307,737	22,530,298

	2015		
	Balance at January 1, 2015 YR 000s	Movements during the year deposits (withdrawal) YR 000s	Balance at December 31, 2015 YR 000s
Investment securities	-	1,815,595	1,815,595
Investment in real estate	3,657,525	13,599,482	17,257,007
Other	-	1,149,959	1,149,959
Total	3,657,525	16,565,036	20,222,561

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Basheer Sultan Al-Maktari
Financial Manager

Mahmoud Ata Hassan Al-Refae
General manager

Abdulgabbbar Hayel Saeed
Chairman

TADHAMON INTERNATIONAL ISLAMIC BANK
(Yemeni Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

1. BACKGROUND INFORMATION

Tadhamon International Islamic Bank (the Bank) was established under the name of Yemen Islamic Bank for Investment and Development a (Yemeni Joint Stock Company) 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. On March 20, 2002, the Extraordinary General Assembly decided 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. (4) 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 20, 1996, and currently it operates through the main branch in Sana'a and (23) branches all over the Republic of Yemen. The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries inside and outside Yemen (together referred to as the "Group") as follows:

Subsidiary Name	Percentage of Equity		Principal Activities
	2016	2015	
Tadhamon Real Estate Ltd. – Yemen	95.0%	95.0%	Real estate development
Tadhamon Capital B.S.C.(c) – Bahrain	99.9%	99.9%	Financial services
Yem holding company.W.L.L – Bahrain	99 %	99 %	Holding company
Green Land Realty Limited – UAE	100 %	100%	Manage real estate assets
			General Trading and
Tadhamon Investments Limited – UAE	100 %	100%	Property Acquisition
TIIB Group Real Estate Limited – UAE	100 %	100%	Manage real estate assets

2. PREPARATION BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Statement of compliance

- The consolidated financial statements are prepared in accordance with the Financial Accounting Standards issued by Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"), the Shari'a rules and principles as determined by the Shari'a Board of the Bank and instructions issued by the Central Bank of Yemen (CBY). Thus, the Group has adopted the International Financial Reporting Standards (IFRS) for the matters that are not covered by AAOIFI standards.
- The consolidated financial statements were approved by the Board of Directors on April 16, 2017.

2.2 Basis of measurement

- The consolidated financial statements have been prepared on the historical cost basis except for real estate investments and equity type instruments carried at fair value through equity and equity type instruments carried at fair value through income statements which are measured at fair value.

2.3 Functional and presentation currency

The consolidated financial statements are presented in Yemeni Rials ("YR") (the Group's functional currency), which is the currency in which the majority of transactions are denominated and are rounded off to the nearest thousand (unless stated otherwise).



2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at December 31, 2016. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and continue to be consolidated until the date when such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate. A change in the Group's ownership of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Share of minority stakeholder' interest (non-controlling interest) represents the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of income and within owners' equity in the consolidated statement of financial position, separately from the equity attributable to shareholders of the parent (the Bank).

2.5 Significant accounting judgments and estimates

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual result 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 period 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 (3.4, 3.8, 3.9, 3.12, 11, 13, 15, 18, 20, 21, 23, 25 and 27).

The following significant judgments, estimates and assumptions applied by the Group presented of these consolidated financial statements:

a. Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as debt type instruments carried at fair value through equity or amortised cost, or equity-type instruments carried at fair value through equity or fair value through income statement. The classification of each investment reflects the management's intention in relation to each investment and each classification is based on different accounting treatment (refer to Note 3.3).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

b. Provision for impairment of assets

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

c. Impairment of available-for-sale equity investments

The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged (judgmental) decline in the fair value below its cost or where other objective evidence of impairment exists. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the present value calculation factors for unquoted equities.

d. Impairment of held for trading investments

The investments which were held for trading are recorded at cost on acquisition date; on financial statements date, these are evaluated at fair value. The differences are taken to the consolidated income statement.

e. Valuation of unquoted private equity and real estate investments

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

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

The Group determines the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

f. Useful lives of property and equipment

The Group uses estimates of useful lives of property and equipment for depreciating these assets.

g. Depreciation rates of Ijarah Muntahia Bittamleek

The Group's uses the lower of the contract leasing period or estimated useful lives of Ijarah Muntahia Bittamleek assets for depreciating these assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year, except for those changes arising from revised/new standards issued by AAOIFI.

a. New standards, amendments, and interpretations effective from January 1, 2016:

FAS 27 – Investments Accounts

FAS 27 Investments accounts was issued in December 2014 replacing FAS 5 – ‘Disclosures of Bases for Profit Allocation between Owner’s Equity and Investment Account Holders’ and FAS 6 – ‘Equity of Investment Account Holders and their Equivalent’. This standard is effective for financial period beginning January 1, 2016. The adoption of this standard did not have a significant impact on the consolidated financial statements of the Group.

b. New standards, amendments, and interpretations issued but not yet effective:

No new standards, amendments to standards and interpretations have been issued but not yet effective for annual period beginning on January 1, 2017.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3.1 Foreign currencies transaction

- In preparing the consolidated financial statements of the Group, transactions in currencies other than the Bank’s functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Translation gain or losses on non-monetary items carried at fair value are included in owner’s equity as part of fair value adjustment. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in the consolidated income statement in the period in which they arise except for exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to return costs on those foreign currency borrowings.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the subsidiaries operations are translated into Yemeni Rials (“YR”) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other reserves, accumulated in equity under the foreign currency translation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

- The currencies used by the companies within the Group are either Yemeni Rials or US Dollars.
- The Group does not engage in forward contracts to meet its obligations in foreign currencies, nor does it engage in foreign exchange contracts to cover the risk of settlement of future liabilities in foreign currencies or its customer's need to meet their obligations in foreign currencies resulting from their transactions through the Group.

3.2 Financial contracts

Financial contracts consist of due from banks and financial institutions, Central Bank of Yemen, Wakala, Sukuk, Murabaha and Istisna'a (net of deferred profit), Mudaraba, Musharaka and Ijarah Muntahia Bittamleek. Balances relating to these contracts are stated net of provisions for impairments.

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

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

Wakala

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

Sukuk

Sukuk are quoted and unquoted securities which are classified as investment and carried at amortized cost in accordance with FAS 25 issued by AAOIFI.

Murabaha receivables

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

Istisna'a

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

Mudaraba

Mudaraba is a contract between two parties whereby one party is a fund provider (Rab Al Mal) who would provide a certain amount of funds (Mudaraba capital), to the other party (Mudarib). Mudarib would then invest the Mudaraba capital in a specific enterprise or activity using its experience and expertise for a specific pre-agreed share in the resultant profit. The Rab Al Mal is not involved in the management of the Mudaraba activity. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal. Under the Mudaraba contract the Bank may act either as Mudarib or as Rab Al Mal, as the case may be.

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

Musharaka

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

Musharaka is stated at cost less impairment provision.

Ijarah Muntahia Bittamleek Receivables

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

3.3 Investment securities

Investment securities comprise equity investments and investments in sukuk (Islamic bonds).

a. Classification

The Group segregates its investment securities into debt-type instruments and equity-type instruments.

Debt-type Instruments:

Debt type instruments are investments that have terms that provide fixed or determinable payments of profits and capital.

Investments in debt-type instruments are classified in the following categories: 1) at amortized cost or 2) at fair value through income statement (FVTIS).

A debt-type investment is classified and measured at amortized cost only if the instrument is managed on a contractual yield basis or the instrument is not held for trading and has not been designated at FVTIS. Debt-type investments at amortized cost include investments in medium to long-term sukuk.

Debt-type investment classified and measured at FVTIS include investments held for trading or designated at FVTIS. At inception, a debt-type investment managed on a contractual yield basis, can only be designated at FVTIS if it eliminates an accounting mismatch that would otherwise arise on measuring the assets or liabilities or recognizing the gains or losses on them on different bases.

Equity-type investments

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

Investments in equity type instruments are classified in the following categories: 1) at fair value through income statement (FVTIS) or 2) at fair value through equity (FVTE), consistent with its investment strategy. Equity-type investments classified and measured at FVTIS include investments held for trading or designated at FVTIS. An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as 'held for trading'.

Equity type investments designated at FVTIS includes investments which are managed and evaluated internally for performance on a fair value basis. This category currently includes an investment in private equity.

On initial recognition, the Group makes an irrevocable election to designate certain equity instruments that are not designated at FVTIS to be classified as investments at fair value through equity. These include investments in certain quoted and unquoted equity securities (held for non-trading).

b. Recognition and de-recognition

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

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

c. Measurement

Investment securities are measured initially at fair value, which is the value of the consideration given. For FVTIS investments, transaction costs are expensed in the consolidated income statement. For other investment securities, transaction costs are included as a part of the initial recognition.

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognized in the consolidated income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognized in the statement of changes in equity and presented in a separate fair value reserve of investments within equity. The fair value gains / losses are recognized taking into consideration the split between portions related to owners' equity and equity of investment accounts' holders. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognized in the consolidated statement of changes in equity is transferred to the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

Investments at FVTE where the entity is unable to determine a reliable measure of fair value on a continuing basis, such as investments that do not have a quoted market price or other appropriate methods from which to derive reliable fair values, are stated at cost less impairment provisions.

Subsequent to initial recognition, debt type investments, other than those carried at FVTIS, are measured at amortized cost using the effective profit method less any impairment provisions.

d. Measurement principles

- Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus capital repayments, plus or minus the cumulative amortization using the effective profit method of any difference between the initial amount recognized and the maturity amount, minus any reduction (directly or by using a provision account) for impairment or uncollectability. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

- Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at the date. The fair value of a liability reflects its non-performance risk.

The Group measures the fair value of listed investments at the market closing price for the investment. For unlisted investments, the Bank recognizes any increase in the fair value, when they have reliable indicators to support such an increase. These reliable indicators are limited to the most recent transactions for the specific investment or similar investments made in the market on a commercial basis between desirous and informed parties who do not have any reactions which might affect the price.

In the absence of a reliable measure of fair value, the investment is carried at cost less any impairment provisions.

3.4 *Impairment of financial assets*

An assessment is made at each reporting date to determine whether there is an evidence that a specific financial asset may be impaired.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of financing facility or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers. If such evidence exists, any impairment loss is recognized in the consolidated income statement. Impairment is determined as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

- For assets carried at fair value, impairment is the difference between cost and fair value.
- For assets carried at amortized cost, impairment is based on estimated cash flows based on the original effective profit rate.
- For assets carried at cost, impairment is based on present value of anticipated cash flows based on the current market rate of return for a similar financial assets.
- *Valuation of Murabaha and Istisna'a financing transactions*

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

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

- b. Debts relating to financing Murabaha and Istisna'a transactions are written off if procedures taken toward their collection prove useless, or if directed by CBY examiners upon review of the portfolio. Proceeds from debts previously written off in prior years are credited to the provision.
- c. Debts relating to financing Murabaha and Istisna'a transactions whether short or long term, are presented on the statement of financial position net of their related provisions, (non-performing provision and general risk provision for performing debts) and deferred and suspense revenues at the financial statements date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

- Valuation of assets whose titles have been transferred to the Group ownership as repayment of debts

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

3.5 Revenue recognition

a. Financing Murabaha and Istisna'a transactions

- Profit on financing Murabaha and Istisna'a contracts are recorded on accrual basis as all profits at the completion of Murabaha contracts are recorded as deferred revenues, and taken into the consolidated income statement or restricted investment accounts' holders on the basis of the finance percentage using the straight-line method over the term of the contract.
- In order to comply with the requirements of CBY, the Bank does not accrue the profit relating to non-performing contracts in the consolidated income statement.

b. Investment in Mudaraba and Musharaka contracts

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

c. Available-for-sale investments

Revenues of available-for-sale investments are recognized when its related dividends are distributed.

d. Ijarah Muntahia Bittamleek

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

e. Fees and commission income

Fees and commission income that are integral to the effective profit rate on a financial instruments carried at amortized cost are included in the measurement of the effective profit rate of the financial assets.

Fees and commission income are recognized when the related services are performed.

f. Wakala Income

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

g. Income from Sukuk and income / expenses on deposits is recognized at its effective profit rate over the term of the instrument.

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

3.6 Restricted investment accounts

Restricted investment accounts represent assets acquired by funds provided by holders of restricted investment accounts and their equivalent and are managed by the Group as an investment manager based on either a Mudaraba contract or Wakala contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investment accounts' holders. Assets that are held in such capacity are not included as assets of the Group in the consolidated financial statements.

Murabaha investment transactions and other investments financed by restricted investment accounts are recorded on the same valuation bases mentioned above and their related profits (losses) and provisions are transferred to restricted investment accounts net of the Group's share for managing these investments.

3.7 Investments in real estate

Investments in real estate are properties held for rental or for capital appreciation (including property under construction for such purposes) or for both. In accordance with FAS 26, the investment in real estate is initially recognized at cost and subsequently measured based on intention whether the investment in real estate is held-for-use or held for sale. The Group has adopted the fair value model for its investments in real estate. Under the fair value model any unrealized gains are recognized directly in owners' equity. Any unrealized losses are adjusted in equity to the extent of the available credit balance. Where unrealized losses exceed the available balance in owners' equity, these are recognized in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

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

When the property is disposed, the cumulative gain previously transferred to the property fair value reserve is transferred to the consolidated income statement.

3.8 Property, equipment and their depreciation

a. Recognition and measurement

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

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

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

b. Subsequent costs

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

c. Depreciation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

The estimated useful lives are as follows which are the same rates used in prior years:

	<u>Estimated Useful Lives</u>
Buildings	50 years
Machinery and equipment	10 years
Motor vehicles	5 years
Furniture and fixtures	4 - 5 years
Computer equipment	5 years

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

3.9 Impairment of non-financial assets

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

3.10 Contingent liabilities and commitments

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

3.11 Cash and cash equivalents

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

3.12 Other provisions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

3.13 End of service benefits

- With regard to the Group employees in Yemen, all employees are contributing to the social security scheme in accordance with the Republic of Yemen's Social Insurance Law No. (26) of 1991. Payments are made to the Social Security General Corporation before the 10th day of next month. The Bank's contribution is charged to the consolidated income statement. The provisions of social security law of the Republic of Yemen are applicable to all Group employees in Yemen concerning to Social Security.
- With regards to the Group employees outside Yemen, the Group pays contributions to Social Insurance Authority of the country the subsidiary is operating, which is a defined contribution scheme in nature, whereby employees and employers contribute monthly on a fixed percentage of the salaries. Contributions by the Group are recognized as expense in the consolidated income statement when they are due.

3.14 Offsetting

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

3.15 Lease contracts

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

3.16 Earnings per share

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

3.17 Comparatives

Except when standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

3.18 Taxes

- The Group operations inside the Republic of Yemen are subject to taxes in accordance with the applicable prevailing laws and regulations. Thus, income tax expense represents the tax currently payable as per the prevailing Yemeni Income Tax Law No. (17) for 2010 and the provision for tax liabilities is made after conducting the necessary studies and in consideration of tax assessments.

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

- The tax due for the Group outside Yemen is calculated according to the prevailing laws and regulations in the countries where the Group's subsidiaries are operating.

3.19 Revenue prohibited by Shari'a rules and principles

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

3.20 Customers' current accounts

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

3.21 Equity of investment account holders

Equity of investment account holders are funds held by the Group in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorizes the Group to invest the account holders' funds in a manner which the Bank deems appropriate without setting any conditions as to where, how and for what purpose the funds should be invested.

Return due on unrestricted investment and saving accounts is determined on the basis of Mudaraba contract, which determines profit (loss) on a sharing basis during the period.

4. SUPERVISION OF CENTRAL BANK OF YEMEN

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

5. FATWA AND SHARI'A' SUPERVISORY BOARD

The Bank's activities are subject to the supervision of a Shari'a supervisory board of three members appointed by the Ordinary General Assembly of the Bank and their responsibility is restricted to the oversight of the Islamic-related aspects of the Bank's activities according to the provisions of Islamic Shari'a.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

6. ZAKAT

Zakat is computed according to the directions of the Shari'a Board and collected from the shareholders on behalf of the relevant government authority. The amount collected is remitted to this authority (75%), which decides on the allocation of the Zakat and the remaining amount (25%) is paid by the Bank.

Payment of Zakat on the unrestricted investment and other accounts is the responsibility of the investment account holder.

7. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

7.1 Financial instruments

- a. The Group's financial instruments are represented in financial assets and liabilities. The financial assets include cash balances, due from banks and financial institutions, financing Murabaha and Istisna'a transactions, Musharaka, Mudaraba contracts, Ijarah Muntahia Bittamleek, investment in securities and other assets. The financial liabilities include due to Banks and financial institutions, customers' current accounts, other deposits, equity of unrestricted investment and saving account holders and other financial liabilities. Also, financial instruments include rights and obligations stated in contingent liabilities and commitments.

Note (3) to the consolidated financial statements includes significant accounting policies applied for recording and measuring significant financial instruments and their related revenues and expenses.

b. Fair value hierarchy

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

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

The following table provides analysis of investment securities that are carried at fair value in the consolidated statement of financial position:

TADHAMON INTERNATIONAL ISLAMIC BANK
(Yemeni Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

	December 31, 2016			
	Level 1 YR 000's	Level 2 YR 000's	Level 3 YR 000's	Total YR 000's
Investment securities				
- Equity type instruments carried at fair value through equity (available for sale investments)	-	-	7,358,290	7,358,290
- Equity type instruments carried at fair value through income statement	2,172,420	-	29,632,080	31,804,500
	<u>2,172,420</u>	<u>-</u>	<u>36,990,370</u>	<u>39,162,790</u>
	December 31, 2015			
	Level 1 YR 000's	Level 2 YR 000's	Level 3 YR 000's	Total YR 000's
Investment securities				
- Equity type instruments carried at fair value through equity (available for sale investments)	-	-	6,144,915	6,144,915
- Equity type instruments carried at fair value through income statement	1,505,873	-	27,912,301	29,418,174
	<u>1,505,873</u>	<u>-</u>	<u>34,057,216</u>	<u>35,563,089</u>

During the year ended December 31, 2016 as well as the year ended December 31, 2015 there were no transfers between levels of the fair value measurement.

- c. Financial instruments for which fair value approximates carrying value
For financial assets and financial liabilities that are liquid or having a term maturity of less than three months, the carrying amounts approximate to their fair value.
- d. Fair value of financial instruments
The fair value of financial assets traded in financial markets is determined by reference to quoted market bid prices on a regulated exchange at the close of business on the year-end date. For financial assets where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same. Where it is not possible to arrive at a reliable estimate of the fair value, the financial assets are carried at cost less any impairment until a reliable measure of the fair value is available.

Based on valuation bases of the Group's assets and liabilities stated in the notes to the financial statements, the fair value of financial instruments does not differ fundamentally from their book value at the financial statements date.

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

	December 31, 2016				
	Carried at Fair Value Through Income Statement YR 000's	Available for Sale Carried at Fair Value Through Equity YR 000's	Amortised Cost / Other YR 000's	Total Carrying Amount YR 000's	Fair Value YR 000's
Financial assets					
Cash on hand and reserve balances with CBY	-	-	38,284,339	38,284,339	38,284,339
Due from banks and financial institutions	-	-	133,095,633	133,095,633	133,095,633
Financing Murabaha and Instisna'a transactions (net)	-	-	28,898,883	28,898,883	28,898,883
Musharaka investment contracts (net)	-	-	-	-	-
Mudaraba investment contracts (net)	-	-	29,394,599	29,394,599	29,394,599
Investment in Islamic Sukuk	-	-	60,125,518	60,125,518	60,125,518
Investment securities	31,804,500	7,358,290	-	39,162,790	39,162,790
Ijarah Muntahia Bittamleek receivables (net)	-	-	23,589	23,589	23,589
Qard hasan (net)	-	-	2,606	2,606	2,606
	<u>31,804,500</u>	<u>7,358,290</u>	<u>289,825,167</u>	<u>328,987,957</u>	<u>328,987,957</u>
Financial liabilities					
Due to banks and financial institutions	-	-	6,073,183	6,073,183	6,073,183
Current accounts and other deposits	-	-	127,810,199	127,810,199	127,810,199
Equity of unrestricted investment and saving accounts' holders	-	-	288,031,113	288,031,113	288,031,113
	<u>-</u>	<u>-</u>	<u>421,914,495</u>	<u>421,914,495</u>	<u>421,914,495</u>

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	December 31, 2015				
	Carried at Fair Value Through Income Statement YR 000's	Available for Sale Carried at Fair Value Through Equity YR 000's	Amortised Cost / Other YR 000's	Total Carrying Amount YR 000's	Fair Value YR 000's
Financial assets					
Cash on hand and reserve balances with CBY	-	-	44,901,774	44,901,774	44,901,774
Due from banks and financial institutions	-	-	108,317,628	108,317,628	108,317,628
Financing Murabaha and Istisna'a transactions (net)	-	-	35,088,898	35,088,898	35,088,898
Musharaka investment contracts (net)	-	-	-	-	-
Mudaraba investment contracts (net)	-	-	31,335,303	31,335,303	31,335,303
Investment in Islamic Sukuk	-	-	89,309,980	89,309,980	89,309,980
Investment securities	29,418,174	6,144,915	-	35,563,089	35,563,089
Ijarah Muntahia Bittamleek receivables (net)	-	-	15,726	15,726	15,726
Qard hasan (net)	-	-	2,794	2,794	2,794
	<u>29,418,174</u>	<u>6,144,915</u>	<u>308,972,103</u>	<u>344,535,192</u>	<u>344,535,192</u>
Financial liabilities					
Due to banks and financial institutions	-	-	2,017,420	2,017,420	2,017,420
Current accounts and other deposits	-	-	141,602,348	141,602,348	141,602,348
Equity of unrestricted investment and saving accounts' holders	-	-	290,020,395	290,020,395	290,020,395
	<u>-</u>	<u>-</u>	<u>433,640,163</u>	<u>433,640,163</u>	<u>433,640,163</u>

7.2 Risk management of financial instruments

- **Risk management framework**
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.
- **Risk management structure**
The Board of Directors is ultimately responsible for identifying and controlling risks, however, there are separate independent bodies responsible for managing and monitoring risks including the following:
 - Executive Committee
The Executive Committee has the responsibility to monitor the overall risk process within the Group.

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- **Risk Committee**
Risk Committee's primary role is selection and implementation of risk management systems, portfolio monitoring, risk reporting to the Board, Board Committees, Regulators and Executive management. In addition, Risk Committee is responsible for monitoring of transaction credit approval.
- **Asset and Liability Committee**
The Asset and Liability Committee establishes policy and objectives for the asset and liability management of the Group's financial position in terms of structure, distribution, risk and return and their impact on profitability.
- **Audit Committee**
The Audit Committee is appointed by the Board of Directors who are non-executive directors. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Group, the measurement system of risk assessment, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.
- **Sharia supervisory board**
The Shari'a Supervisory Board is entrusted with the responsibility to ensure adherence to Sahri'a rules and principles in its transactions and activities.
- **Risk measurement**
Monitoring and controlling risks are primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group 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 are examined and processed in order to analyze, control and identify early risks.

The Group is exposed to credit risk, liquidity risk, market risk (which include return rate risk and currency risk), operating risk and other risk.
- a. **Credit risk**
Financing of Murabaha, Istisna'a transactions, Mudaraba and Musharaka contracts, Ijarah Muntahia Bittamleek and their related debts, due from banks and financial investments and rights and obligations from other parties are considered as financial assets exposed to credit risk. Credit risk represents the inability of these parties to meet their obligations when they fall due.

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Management of credit risk

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

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

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

<u>Grade</u>	<u>Classification</u>	<u>2016</u> <u>YR 000s</u>	<u>2015</u> <u>YR 000s</u>
1 - 2	Performing and watchlist	<u>30,217,105</u>	<u>35,464,737</u>

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

- Preparing credit studies on customers and banks before dealing with them and determining their related credit risk rates.
- Obtaining sufficient collaterals to minimize the credit risk exposure which may result from financial problems facing customers or banks.
- Following up and periodical reviews of customers and banks in order to evaluate their financial positions, credit rating and the required provision for non-performing debts.
- Distributing credit portfolio and investments over diversified sectors to minimize concentration of credit risk.

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

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	2016	2015
	YR 000's	YR 000's
Cash on hand and reserve balances with CBY (excluding cash on hand and ATMs)	34,753,110	34,777,635
Due from banks and financial institutions	133,095,633	108,317,628
Financing Murabaha and Istisna'a transactions (net)	28,898,883	35,088,898
Musharaka investment contracts (net)	-	-
Mudaraba investment contracts (net)	29,394,599	31,335,303
Investment in Islamic Sukuk	60,125,518	89,309,980
Investment securities	39,162,790	35,563,089
Investment in real estate	161,264,445	134,448,430
Ijarah Muntahia Bittamleek receivables (net)	23,589	15,726
Qard Hasan (net)	2,606	2,794
Debit balances and other assets (net) after deducting the advance payments	4,807,371	13,117,389
	491,528,544	481,976,872
Contingent liabilities and commitments	21,276,975	27,440,590
Total credit risk exposure	512,805,519	509,417,462

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

	2016		2015	
	Gross Maximum Exposure YR000's	Net Maximum Exposure YR 000's	Gross Maximum Exposure YR 000's	Net Maximum Exposure YR 000's
Governmental	197,624,669	-	206,513,589	-
Financial	70,529,532	45,436,371	64,607,817	40,697,837
Industrial	11,440,511	11,291,434	19,670,450	19,521,372
Commercial	209,448,293	128,965,370	172,572,591	105,497,669
Agricultural and fishing	3,140	3,140	9,408	9,408
Others	2,482,399	2,482,399	18,603,017	18,603,017
	491,528,544	188,178,714	481,976,872	184,329,303
Contingent liabilities and commitments	21,276,975	18,602,400	27,440,590	15,079,327
	512,805,519	206,781,114	509,417,462	199,408,630

The Group manages concentration of risk by distributing the financing and investment portfolio over diversified economic sectors and geographical locations. Note (45) shows the distribution of assets, liabilities, contingent liabilities and commitments based on economic sectors and Note (46) shows the distribution of financial instruments based on geographical locations at the consolidated financial statements date.

b. Liquidity risk

Liquidity risk arises from cash flows generated by assets and liabilities, which are not consistent in currency, size and term, thereby creating financing needs which potentially cannot be met without incurring substantially higher costs or at any cost at all.

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Liquidity risk is the risk that the Bank will be unable to meet its obligations when they fall due and other risks related to sufficient liquidity without incurring losses on timely basis.

Management of liquidity risk

The management in addition to its core deposit base, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis and has arranged diversified funding sources.

The Central Bank of Yemen Circular No. 3 of 1997 requires that the liquidity ratio be 25% as a minimum. The liquidity rate as at December 31, 2016 was 45% (as at December 31, 2015 was 45%).

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

	2016				
	Due within 3 months YR 000's	Due from 3 to 6 months YR 000's	Due from 6 months to 1 year YR 000's	Due more 1 year YR 000's	Total YR 000's
<u>Liabilities</u>					
Due to banks and financial institutions	6,073,183	-	-	-	6,073,183
Current accounts and other deposits	127,810,199	-	-	-	127,810,199
Equity of unrestricted investment and saving accounts' holders	50,459,702	30,477,241	58,256,293	148,837,877	288,031,113
Credit balances and other liabilities	7,161,350	-	-	-	7,161,350
Total liabilities	<u>191,504,434</u>	<u>30,477,241</u>	<u>58,256,293</u>	<u>148,837,877</u>	<u>429,075,845</u>
	2015				
	Due within 3 months YR 000's	Due from 3 to 6 months YR 000's	Due from 6 months to 1 year YR 000's	Due more 1 year YR 000's	Total YR 000's
<u>Liabilities</u>					
Due to banks and financial institutions	2,017,420	-	-	-	2,017,420
Current accounts and other deposits	141,602,348	-	-	-	141,602,348
Equity of unrestricted investment and saving accounts' holders	36,816,200	28,910,111	54,136,512	170,157,572	290,020,395
Credit balances and other liabilities	6,031,393	-	-	-	6,031,393
Total liabilities	<u>186,467,361</u>	<u>28,910,111</u>	<u>54,136,512</u>	<u>170,157,572</u>	<u>439,671,556</u>

Note no. (44) of the notes to the consolidated financial statements shows the maturity analysis of financial assets and liabilities and the net gap between them at the consolidated financial statements date compared with last year.

c. Market risk

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

- Management of market risk

The Group separates exposure to market risk between two portfolios, one for trading portfolios and non-trading portfolios.

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

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

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

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

- Return rate risk

Return due on unrestricted investments and saving accounts is determined on the basis of Mudaraba contract, which determines profit (loss) on a sharing basis during the period. Accordingly, any change in the profitability level will determine the return ratio that the Group could pay to unrestricted investments and saving accounts holders. Therefore, the Group is not exposed, directly, to the risk of change in return rate.

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

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- Exchange rate risk for foreign currencies

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

Due to the nature of the Group's activity, the Group deals in different foreign currencies, hence it is exposed to exchange rate risk. In order to minimize the exposure to exchange rate risk, the Group 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 long position for all foreign currencies should not exceed 25% of the Bank's capital and reserves.

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

The table below shows the Bank's significant net exposures to foreign currencies compared with last year:

	2016						Total YR 000s
	US Dollars YR 000s	EURO YR 000s	Saudi Riyal YR 000s	Sterling Pound YR 000s	AED YR 000s	Others YR 000s	
Assets	135,124,132	2,160,460	91,010,054	564,872	22,036,263	113,179	251,008,960
Liabilities	(130,537,158)	(2,697,604)	(86,386,180)	(528,564)	(1,817,535)	(43,440)	(222,010,481)
Net currency position	<u>4,586,974</u>	<u>(537,144)</u>	<u>4,623,874</u>	<u>36,308</u>	<u>20,218,728</u>	<u>69,739</u>	<u>28,998,479</u>

	2015						Total YR 000s
	US Dollars YR 000s	EURO YR 000s	Saudi Riyal YR 000s	Sterling Pound YR 000s	AED YR 000s	Others YR 000s	
Assets	131,952,283	2,471,391	83,158,046	462,877	19,348,801	161,621	237,555,019
Liabilities	(116,159,306)	(3,136,390)	(81,855,612)	(708,565)	(1,611,520)	(4,874)	(203,476,267)
Net currency position	<u>15,792,977</u>	<u>(664,999)</u>	<u>1,302,434</u>	<u>(245,688)</u>	<u>17,737,281</u>	<u>156,747</u>	<u>34,078,752</u>

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

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

Currency	The closing exchange rates according to CBY as at		The average exchange rate according to the market rates as at	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	<u>Equivalent YR</u>	<u>Equivalent YR</u>	<u>Equivalent YR</u>	<u>Equivalent YR</u>
US Dollars	250.25	214.89	297.50	225.00
Euro	261.78	234.91	321.93	252.08
Saudi Riyal	66.70	57.15	76.78	61.09
Sterling Pound	306.39	318.61	376.83	341.78
AED	68.14	58.52	77.28	62.59

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According to the instructions of CBY, the Group applied the closing exchange rates of CBY for the translation of foreign exchange balances as at December 31, 2016 and 2015.

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

Currency	Effect on	
	Consolidated Income Statement	
	Increase (Decrease)	
	2016	2015
	YR 000s	YR 000s
US Dollars	866,072	743,017
Euro	(123,411)	(48,592)
Saudi Riyal	698,884	89,678
Sterling Pound	8,347	(17,863)
AED	2,710,568	1,232,092
Other Currencies	15,861	16,295

Note (47) to the consolidated financial statements indicates the significant foreign currencies' positions at the consolidated financial statements date compared with last year.

d. Operational risk

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

e. Other risks

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

8. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to ensure that the Group complies with capital requirements which are issued by the Central Bank of Yemen (CBY), and that the Group maintains strong credit ratings and excellent capital ratios. The capital adequacy is monitored on a quarterly basis by the management of the Group employing techniques based on the guidelines as implemented by the CBY for supervisory purposes. The required information is filed with the CBY on a quarterly basis, in order to comply with the requirements of CBY circular no. (2) of 1997.

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

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

	2016	2015
	<u>YR Millions</u>	<u>YR Millions</u>
Core capital	39,720	33,606
Supplementary capital	<u>33,451</u>	<u>26,836</u>
Total capital	<u>73,171</u>	<u>60,442</u>
<u>Risk-weighted assets and liabilities:</u>		
Total assets	199,910	208,686
Contingent liabilities and commitments	<u>12,029</u>	<u>15,079</u>
Total risk-weighted assets and liabilities	<u>211,939</u>	<u>223,765</u>
Capital adequacy ratio	<u>%34.52</u>	<u>%27.01</u>

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

9. CASH ON HAND AND RESERVE BALANCES WITH CENTRAL BANK OF YEMEN

	2016	2015
	<u>YR 000s</u>	<u>YR 000s</u>
Cash on hand and ATM - local currency	1,075,691	2,238,451
Cash on hand and ATM - foreign currencies	<u>2,455,538</u>	<u>7,885,688</u>
	<u>3,531,229</u>	<u>10,124,139</u>
Mandatory reserve with CBY - local currency	14,756,368	16,643,271
Mandatory reserve with CBY - foreign currency	<u>19,996,727</u>	<u>18,134,352</u>
	<u>34,753,095</u>	<u>34,777,623</u>
Valuable metals (gold and silver)	<u>15</u>	<u>12</u>
	<u>38,284,339</u>	<u>44,901,774</u>

The mandatory reserve balances with the CBY represent the minimum reserve requirements against customers' accounts in Yemeni Rials and foreign currencies (without return), and these funds are not available for the Group's daily business.

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10. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2016	2015
	YR 000s	YR 000s
Central Bank of Yemen		
Current accounts - local currency	101,549,860	78,884,692
Current accounts - foreign currency	3,115,284	3,832,953
	<u>104,665,144</u>	<u>82,717,645</u>
Local Banks		
Current accounts – local currency	24,562	103,702
Foreign Banks and financial institutions		
Current accounts – foreign currency	11,390,913	8,494,285
Investment deposits – foreign currency	4,758,548	1,751,694
Wakala placements – foreign currency	11,937,585	13,242,694
Margins – foreign currency	318,881	2,007,608
	<u>28,405,927</u>	<u>25,496,281</u>
	<u>133,095,633</u>	<u>108,317,628</u>

11. FINANCING MURABAHA AND ISTISNA'A TRANSACTIONS (NET)

	2016	2015
	YR 000s	YR 000s
Financing Murabaha transactions	24,959,386	39,028,269
Financing Istisna'a transactions	11,956,669	4,636,833
	<u>36,916,055</u>	<u>43,665,102</u>
Less: Provision for financing Murabaha and Istisna'a transactions	12 (5,324,453)	(5,592,969)
Less: Deferred revenues	(2,692,719)	(2,983,235)
	<u>28,898,883</u>	<u>35,088,898</u>

- According to the Banks Law No. (38) of 1998, Article No. 85, and Income Tax Law No. 17 of 2010, Article No. 14, all provisions made in compliance with the Central Bank of Yemen instructions are exempt from income tax.
- Non-performing financing Murabaha and Istisna'a transactions amounted to YR 5,229,287 thousand as at December 31, 2016 after deducting balances secured by cash deposits amounted to 1,919,972 thousand (YR 8,517,216 thousand as at December 31, 2015 after deducting balances secured by cash deposits amounted to 316,851 thousand). The break-up of the above amount is as follows:

	2016	2015
	YR 000s	YR 000s
Substandard financing debts	184,231	1,210,464
Doubtful financing debts	521,288	4,679,628
Bad financing debts	4,523,768	2,627,124
	<u>5,229,287</u>	<u>8,517,216</u>

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12. PROVISION FOR FINANCING MURABAHA AND ISTISNA'A TRANSACTIONS (PERFORMING AND NON-PERFORMING)

	Note	2016			2015		
		Specific YR 000s	General YR 000s	Total YR 000s	Specific YR 000s	General YR 000s	Total YR 000s
Balance at the beginning of the year		4,914,527	678,442	5,592,969	1,987,799	769,947	2,757,746
Add: provided during the year	38	-	-	-	3,073,944	-	3,073,944
Transferred from General Provision to Specific Provision		-	-	-	29,483	(29,483)	-
Provision reversed	37	(128,545)	(139,971)	(268,516)	(176,699)	(62,022)	(238,721)
Balance at the end of the year		<u>4,785,982</u>	<u>538,471</u>	<u>5,324,453</u>	<u>4,914,527</u>	<u>678,442</u>	<u>5,592,969</u>

13. MUSHARAKA INVESTMENT CONTRACTS (NET)

	Note	2016 YR 000s	2015 YR 000s
Musharaka investment contracts – Local		312,813	268,613
Less: provision for Musharaka investment contracts	14	(312,813)	(268,613)
		<u>-</u>	<u>-</u>

Non-performing Musharaka investment contracts which were classified as bad debts amounted to YR 312,813 thousand as at December 31, 2016 (YR 261,613 thousand as at December 31, 2015).

14. PROVISION FOR MUSHRAKA INVESTMENT CONTRACTS (PERFORMING AND NON-PREFORMING)

	Note	2016			2015		
		Specific YR 000s	General YR 000s	Total YR 000s	Specific YR 000s	General YR 000s	Total YR 000s
Balance at the beginning of the year		268,613	-	268,613	1,489,379	-	1,489,379
Add: provided during the year	38	44,200	-	44,200	-	-	-
Less: used during the year		-	-	-	(168,002)	-	(168,002)
Provision reversed	37	-	-	-	(1,052,764)	-	(1,052,764)
Balance at the end of the year		<u>312,813</u>	<u>-</u>	<u>312,813</u>	<u>268,613</u>	<u>-</u>	<u>268,613</u>

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15. MUDARABA INVESTMENT CONTRACTS (NET)

	Note	2016 YR 000s	2015 YR 000s
Mudaraba investment contracts - local		15,645,622	19,532,968
Mudaraba investment contracts - foreign		16,323,264	14,049,072
Less: provision for Mudaraba investment contracts	16	(2,574,287)	(2,246,737)
		<u>29,394,599</u>	<u>31,335,303</u>

Non-performing Mudaraba investment contracts amounted to YR 2,077,534 thousand as at December 31, 2016 (YR 1,936,995 as at December 31, 2015).

The break-up of the above amounts are as follows:

	2016 YR 000s	2015 YR 000s
Doubtful debts	80,000	97,160
Bad debts	<u>1,997,534</u>	<u>1,839,835</u>
	<u>2,077,534</u>	<u>1,936,995</u>

16. PROVISION FOR MUDARABA INVESTMENT CONTRACTS (PERFORMING AND NON-PERFORMING)

	Note	2016			2015		
		Specific YR 000s	General YR 000s	Total YR 000s	Specific YR 000s	General YR 000s	Total YR 000s
Balance at beginning of the year		1,883,557	363,180	2,246,737	2,440,478	22,888	2,463,366
Add: provided during the year	38	151,263	176,287	327,550	-	-	-
Transferred from Specific Provision to General provision		-	-	-	(340,292)	340,292	-
Provision reversed	37	-	-	-	(216,629)	-	(216,629)
Balance at end of the year		<u>2,034,820</u>	<u>539,467</u>	<u>2,574,287</u>	<u>1,883,557</u>	<u>363,180</u>	<u>2,246,737</u>

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17. INVESTMENT IN ISLAMIC SUKUK

	2016	2015
	YR 000s	YR 000s
Debt-type instruments		
Sukuks at amortized cost		
- Islamic Sukuk – local (unquoted)	57,190,000	85,880,000
- Islamic Sukuk – foreign (quoted)	<u>2,935,518</u>	<u>3,429,980</u>
	<u>60,125,518</u>	<u>89,309,980</u>

- Investments in local Islamic Sukuk are issued by the unit of the Islamic Sukuk at CBY (unquoted), the nominal value of suk is YR 1,000,000 as at December 31, 2016 (YR 1,000,000 as at December 31, 2015 for each suk).
- The Yemeni Government represented by the Ministry of Finance guarantees the sukuk at the maturity dates and authorized the Central Bank of Yemen to deduct such dues from the Ministry of Finance account with the Central Bank of Yemen at the maturity dates.

18. INVESTMENT SECURITIES

	Note	2016	2015
		YR 000s	YR 000s
Equity-type instruments			
At fair value through equity			
Available-for-sale investments – unquoted		8,597,664	6,975,538
Less: Impairment provision on available-for-sale investments	18.1	<u>(1,239,374)</u>	<u>(830,623)</u>
		<u>7,358,290</u>	<u>6,144,915</u>
Investment – type instruments			
At fair value through income statement			
- Quoted investments		3,931,511	1,505,873
- Unquoted investments		<u>29,632,080</u>	<u>28,527,323</u>
		33,563,591	30,033,196
Less: Impairment provision on investment securities at fair value through income statement	18.2	<u>(1,759,091)</u>	<u>(615,022)</u>
		<u>31,804,500</u>	<u>29,418,174</u>
		<u>39,162,790</u>	<u>35,563,089</u>

- As at December 31, 2016 and 2015, the available-for-sale investments are unquoted financial investments. Due to the difficulty of obtaining a reliable estimate of fair value for these investments as there are no quoted market prices and future cash flows are not determinable, these investments are carried at cost less the impairment provision.
- The impairment provision for some available for sale investments recognized because the Bank did not receive any dividends from these investments during prior years, and no dividends are expected to be received in the coming years.
- All of available-for-sale investments are non-classified by any international rating companies.

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18.1 IMPAIRMENT PROVISION ON AVAILABLE FOR SALE INVESTMENTS

		2016	2015
	Note	YR 000s	YR 000s
Balance at the beginning of the year		830,623	3,747,471
Less: used during the year		-	(2,317,218)
Impairment during the year	40	408,751	-
Reversed during the year	37	-	(599,630)
		<u>1,239,374</u>	<u>830,623</u>

18.2 IMPAIRMENT PROVISION AT FAIR VALUE OF INVESTMENTS THROUGH INCOME STATEMENT

		2016	2015
	Note	YR 000s	YR 000s
Balance at the beginning of the year		615,022	-
Impairment during the year	40	<u>1,144,069</u>	<u>615,022</u>
		<u>1,759,091</u>	<u>615,022</u>

19. INVESTMENTS IN REAL ESTATE

		2016	2015
	Note	YR 000s	YR 000s
Investments in real estate – local		16,881,677	13,397,579
Investments in real estate – foreign		<u>114,872,645</u>	<u>98,060,041</u>
		131,754,322	111,457,620
Changes in fair value (unrealized gain)	31.c	<u>32,188,179</u>	<u>25,446,381</u>
		163,942,501	136,904,001
Less: impairment on investments in real estate		<u>(2,678,056)</u>	<u>(2,455,571)</u>
		<u>161,264,445</u>	<u>134,448,430</u>

- Investments in real estate-foreign, include properties for amount of YR 86,004,943 thousand as at December 31, 2016 which are registered in the name of other parties in return for cession in favor of the Group (YR 73,974,571 thousand as at December 31, 2015).

The real estate investments comprise the following:

		2016	2015
	Note	YR 000s	YR 000s
Balance at the beginning of the year		111,457,620	128,167,241
Additions during the year		20,861,724	34,565
Disposed during the year		<u>(565,022)</u>	<u>(16,744,186)</u>
Total cost		131,754,322	111,457,620
Add: changes in fair value (unrealized gain)	31.c	<u>32,188,179</u>	<u>25,446,381</u>
Less: impairment on investments in real estate		<u>(2,678,056)</u>	<u>(2,455,571)</u>
		<u>161,264,445</u>	<u>134,448,430</u>

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20. IJARAH MUNTAHIA BITTAMLEEK RECEIVABLES (NET)

	<u>Note</u>	<u>2016</u> <u>YR 000s</u>	<u>2015</u> <u>YR 000s</u>
Ijarah Muntahia Bittamleek receivables		54,431	29,784
Less: deferred revenues		(13,114)	(6,083)
Less: provision for impairment of Ijarah Muntahia Bittamleek receivables	20.1	(17,728)	(7,975)
Balance at the end of the year		<u>23,589</u>	<u>15,726</u>

20.1 PROVISION FOR IMPAIRMENT OF IJARAH MUNTAHIA BITTAMLEEK RECEIVABLES

	<u>Note</u>	<u>2016</u> <u>YR 000s</u>	<u>2015</u> <u>YR 000s</u>
Balance at the beginning of the year		7,975	335
Provided during the year	38	<u>9,753</u>	<u>7,640</u>
		<u>17,728</u>	<u>7,975</u>

21. DEBIT BALANCES AND OTHER ASSETS (NET)

	<u>Note</u>	<u>2016</u> <u>YR 000s</u>	<u>2015</u> <u>YR 000s</u>
Accrued income		2,549,276	5,214,362
Loans and advances		899,361	1,662,102
Projects in process (advances)		1,626,815	1,409,243
Prepaid expenses		169,084	133,707
Stationery, property and equipment inventory		240,963	279,743
Current account overdrawn		570,428	5,945,081
Other debit balances		<u>2,440,372</u>	<u>1,434,130</u>
		8,496,299	16,078,368
Less: provision for doubtful debt balances and other assets	22	(1,893,029)	(1,418,029)
		<u>6,603,270</u>	<u>14,660,339</u>

22. PROVISION FOR DOUBTFUL DEBT BALANCES AND OTHER ASSETS

	<u>Note</u>	<u>2016</u> <u>YR 000s</u>	<u>2015</u> <u>YR 000s</u>
Balance at the beginning of the year		1,418,029	667,642
Add: Provided during the year	38	478,789	750,387
Less: Used during the year		(1,489)	-
Less: Provision reversed	37	(2,300)	-
Balance at the end of the year		<u>1,893,029</u>	<u>1,418,029</u>

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23. PROPERTY AND EQUIPMENT (NET)

	2016					Total
	Land YR 000's	Buildings YR 000's	Machinery and Equipment YR 000's	Motor Vehicles YR 000's	Furniture and Fixtures YR 000's	Computer and Equipment YR 000's
Cost						
Balance at January 1, 2016	1,259,029	2,511,508	1,567,558	422,836	396,921	3,255,749
Differences from translation of foreign currencies	-	-	-	1,304	27,035	26,365
Additions during the year	3,485	-	94,690	1,376	11,027	179,664
Disposals during the year	(97,342)	-	(29,402)	(4,403)	(3,537)	(22,129)
Balance at December 31, 2016	1,165,172	2,511,508	1,632,846	421,113	431,446	3,439,649
Accumulated depreciation						
Balance at January 1, 2016	-	422,252	851,827	235,444	292,058	2,223,997
Differences from translation of foreign currencies	-	-	-	435	26,133	26,076
Charge during the year	-	50,230	126,748	51,793	18,641	467,702
Disposals during the year	-	-	(21,876)	(4,392)	(1,923)	(9,134)
Balance at December 31, 2016	-	472,482	956,699	283,280	334,909	2,708,641
Net book value						
Balance at December 31, 2016	1,165,172	2,039,026	676,147	137,833	96,537	731,008
						4,845,723

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	2015					
	Land YR 000's	Buildings YR 000's	Machinery and Equipment YR 000's	Motor Vehicles YR 000's	Furniture and Fixtures YR 000's	Computer and Equipment YR 000's
Cost						Total YR 000's
Balance at January 1, 2015	1,266,107	2,510,338	1,443,037	384,590	385,819	3,179,885
Additions during the year	9,592	1,170	140,720	84,976	12,405	82,712
Differences from translation of foreign currencies	-	-	-	-	-	-
Disposals during the year	(16,670)	-	(16,199)	(46,730)	(1,303)	(87,750)
Balance at December 31, 2015	1,259,029	2,511,508	1,567,558	422,836	396,921	9,413,601
Accumulated depreciation						
Balance at January 1, 2015	-	372,022	735,436	215,828	273,054	1,751,894
Charge during the year	-	50,230	127,802	54,890	19,667	474,251
Differences from translation of foreign currencies	-	-	-	-	-	-
Disposals during the year	-	-	(11,411)	(35,274)	(663)	(2,148)
Balance at December 31, 2015	-	422,252	851,827	235,444	292,058	4,025,578
Net book value						
Balance at December 31, 2015	1,259,029	2,089,256	715,731	187,392	104,863	5,388,023

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24. CURRENT ACCOUNTS AND OTHER DEPOSITS

	2016 YR 000s	2015 YR 000s
Current accounts – local currency	37,747,563	52,324,485
Current accounts – foreign currency	<u>85,199,652</u>	<u>84,278,809</u>
	<u>122,947,215</u>	<u>136,603,294</u>
Cash margin – letters of credit	718,172	1,014,256
Cash margin – letters of guarantee	1,956,321	2,148,246
Cash margin – others	123,242	102,329
Other deposits	<u>2,065,249</u>	<u>1,734,223</u>
	<u>4,862,984</u>	<u>4,999,054</u>
	<u>127,810,199</u>	<u>141,602,348</u>

25. CREDIT BALANCES AND OTHER LIABILITIES

	Note	2016 YR 000s	2015 YR 000s
Income tax for the year		787,496	-
Income on investments collected in advance		-	1,232,094
Deposits of profit for unrestricted accounts' holders		2,039,764	1,084,625
Salary tax		15,316	30,183
Accrued expenses		1,407,389	1,322,776
Prohibited revenues by Islamic Shari'a	26	1,117	17,051
Other credit balances		<u>2,910,268</u>	<u>2,344,664</u>
		<u>7,161,350</u>	<u>6,031,393</u>

26. PROHIBITED REVENUES BY ISLAMIC SHARI'A

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

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The following are the movements of prohibited revenues by the Islamic Shari'a during the year:

	2016 YR 000s	2015 YR 000s
Balance at the beginning of the year	17,051	13,452
Add: Resources (revenues) during the year	<u>5,568</u>	<u>3,599</u>
Total available balance during the year	22,619	17,051
Less: Uses (expenses) during the year		
Donations and charities	(21,502)	-
Balance at the end of the year	<u>1,117</u>	<u>17,051</u>

27. OTHER PROVISIONS

	2016				
	Balance at the beginning of the year YR 000s	Provided during the year YR 000s	Used during the year YR 000s	Provisions reversed YR 000s	Balance at the end of the year YR 000s
Provision for contingent liabilities	242,781	-	-	(56,757)	186,024
Provision for contingent claims	<u>61,791</u>	<u>400,000</u>	(29,672)	-	<u>432,119</u>
	<u>304,572</u>	<u>400,000</u>	(29,672)	(56,757)	<u>618,143</u>
	2015				
	Balance at the beginning of the year YR 000s	Provided during the year YR 000s	Used during the year YR 000s	Provisions reversed YR 000s	Balance at the end of the year YR 000s
Provision for contingent liabilities	471,728	-	-	(228,947)	242,781
Provision for contingent claims	<u>84,854</u>	<u>-</u>	(23,063)	-	<u>61,791</u>
	<u>556,582</u>	<u>-</u>	(23,063)	(228,947)	<u>304,572</u>

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28. EQUITY OF UNRESTRICTED INVESTMENT AND SAVING ACCOUNTS' HOLDERS

	<u>2016</u> <u>YR 000s</u>	<u>2015</u> <u>YR 000s</u>
Unrestricted investment deposits – local currency	121,848,245	138,228,159
Unrestricted investment deposits – foreign currency	69,381,843	63,365,978
	<u>191,230,088</u>	<u>201,594,137</u>
Saving deposits – local currency	43,694,073	37,462,439
Saving deposits – foreign currency	41,059,200	38,267,726
	<u>84,753,273</u>	<u>75,730,165</u>
Return of unrestricted investment and saving accounts' holders	<u>12,047,752</u>	<u>12,696,093</u>
	<u>288,031,113</u>	<u>290,020,395</u>

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

29. RETURN OF UNRESTRICTED INVESTMENT AND SAVING ACCOUNTS HOLDERS

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

	<u>2016</u>		<u>2015</u>	
	<u>Yemeni</u> <u>Rial</u> <u>%</u>	<u>Foreign</u> <u>currencies</u> <u>%</u>	<u>Yemeni</u> <u>Rial</u> <u>%</u>	<u>Foreign</u> <u>currencies</u> <u>%</u>
Investment deposits	7.08%	3.03%	7.06%	3.03%
Investment saving accounts	3.96%	1.71%	3.96%	1.71%

30. SHARE CAPITAL

As at December 31, 2016, the authorized, issued and paid-up capital is YR 20 billion (YR 20 billion as at December 31, 2015) divided into 20 million shares with nominal value of YR 1,000 per share in accordance with the Extraordinary General Assembly meeting dated August 19, 2009 concerning to increase the share capital from YR 10 billion to YR 20 billion.

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31. RESERVES

a. Statutory reserve

According to the provisions of the Banks Law No. (38) of 1998 and the Bank's Articles of Association, 15% of the net profit for the year is transferred to statutory reserve until the balance of this reserve reaches twice the share capital. The Bank cannot use this reserve without the prior approval of the Central Bank of Yemen. As at December 31, 2016, the statutory reserve amounted to YR 17,588,148 thousand (YR 16,616,321 thousand as at December 31, 2015).

b. General reserve

According to the Articles of Associations, not more than 5% of the net profit for the year is transferred to general reserve. This is done by decision of the General Assembly based on the Board of Director's proposal. As at December 31, 2016, the general reserve amounted to YR 261,246 thousand (YR 261,246 thousand as at December 31, 2015).

c. Other reserves

	<u>Note</u>	<u>2016</u> <u>YR 000s</u>	<u>2015</u> <u>YR 000s</u>
Fair value reserve for real estate investments	19	32,188,179	25,446,381
Reserve for translation of foreign currencies		<u>57,382</u>	<u>(30,009)</u>
		<u>32,245,561</u>	<u>25,416,372</u>

32. CONTINGENT LIABILITIES AND COMMITMENTS (NET)

	<u>2016</u>		
	<u>Gross</u> <u>commitments</u> <u>YR 000s</u>	<u>Cash margin</u> <u>held</u> <u>YR 000s</u>	<u>Net</u> <u>commitments</u> <u>YR 000s</u>
Letters of credit	4,108,655	(718,172)	3,390,483
Letters of guarantee	<u>17,168,320</u>	<u>(1,956,321)</u>	<u>15,211,999</u>
	<u>21,276,975</u>	<u>(2,674,493)</u>	<u>18,602,482</u>
	<u>2015</u>		
	<u>Gross</u> <u>commitments</u> <u>YR 000s</u>	<u>Cash margin</u> <u>held</u> <u>YR 000s</u>	<u>Net</u> <u>commitments</u> <u>YR 000s</u>
Letters of credit	5,210,523	(1,014,256)	4,196,267
Letters of guarantee	<u>22,230,067</u>	<u>(2,148,246)</u>	<u>20,081,821</u>
	<u>27,440,590</u>	<u>(3,162,502)</u>	<u>42,278,088</u>

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33. INCOME FROM FINANCING MURABAHA AND ISTISNA'A TRANSACTIONS

	2016	2015
	YR 000s	YR 000s
Income from financing Murabaha transactions	3,064,183	3,945,994
Income from Istisna'a transactions	<u>1,189,382</u>	<u>957,244</u>
	<u>4,253,565</u>	<u>4,903,238</u>

34. INCOME FROM OTHER JOINT INVESTMENTS

	2016	2015
	YR 000s	YR 000s
Income from banks and financial institutions		
Income from investment deposits	107,082	36,974
Income from Wakala placements	<u>690,898</u>	<u>667,181</u>
	<u>797,980</u>	<u>704,155</u>
Income from investment securities		
Income from available for sales investments	244,701	988,246
Income from investments through income statement	<u>59,797</u>	<u>456,007</u>
	<u>304,498</u>	<u>1,444,253</u>
	1,102,478	2,148,408
Income from Islamic Sukuk	7,970,004	9,979,083
Income from Mudaraba investment contracts	812,524	20,854
Income from investments in real estate	3,325,971	1,946,653
Income from Ijarah Muntahia Bittamleek	2,821	2,691
Other joint income	<u>1,946,333</u>	<u>58,560</u>
	<u>15,160,131</u>	<u>14,156,249</u>

35. FEES AND COMMISSION INCOME

	2016	2015
	YR 000s	YR 000s
Commissions on letter of credit	808,733	592,665
Commissions on letter of guarantee	314,626	234,213
Commissions on transfer of fund	385,658	423,296
Other fees and commissions	<u>389,556</u>	<u>303,447</u>
	<u>1,898,573</u>	<u>1,553,621</u>

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36. GAINS ON FOREIGN CURRENCY TRANSACTIONS

	2016	2015
	<u>YR 000s</u>	<u>YR 000s</u>
Gain on dealing in foreign currencies	1,294,002	2,115,148
Gain from translation of foreign currencies balances	<u>6,274,825</u>	<u>1,875,626</u>
	<u><u>7,568,827</u></u>	<u><u>3,990,774</u></u>

37. OTHER OPERATING INCOME

	Note	2016	2015
		<u>YR 000s</u>	<u>YR 000s</u>
Provisions reversed			
- Provision for financing Murabaha and Istisna'a transactions	12	268,516	238,721
- Provision for Musharaka investment contracts	14	-	1,052,764
- Provision for Mudaraba investment contracts	16	-	216,629
- Provision for impairment of available - for - sales investments	18.1	-	599,630
- Provision for Qard Hasan fund		375	-
- Provision for doubtful debt balances and other assets	22	2,300	-
- Other provisions	27	<u>56,757</u>	<u>228,947</u>
		327,948	2,336,691
Net gain on disposal of property and equipment		53,169	7,302
Others		<u>25,000</u>	<u>79,880</u>
		<u><u>406,144</u></u>	<u><u>2,423,873</u></u>

38. PROVISIONS CHARGED TO CONSOLIDATED INCOME STATEMENT

	Note	2016	2015
		<u>YR 000s</u>	<u>YR 000s</u>
Provision for financing Murabaha and Istisna'a transactions	12	-	3,073,944
Provision for Musharaka investment contracts	14	44,200	-
Provision for Mudaraba investment contracts	16	327,550	-
Provision for impairment of Ijarah Muntahia Bittamleek receivables	20.1	9,753	7,640
Provision for doubtful debt balances and other assets	22	478,789	750,387
Provision for Qard Hasan fund		-	383
Other provisions	27	<u>400,000</u>	<u>-</u>
		<u><u>1,260,292</u></u>	<u><u>3,832,354</u></u>

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39. LOSS ON SALES OF INVESTMENTS (REALIZED)

	2016 YR 000s	2015 YR 000s
Loss on sales of available-for-sale investments	-	3,636,809
Loss on sales of investments in real estate	-	65,916
Net loss on foreign Mudaraba and Musharaka investment contracts	-	108,987
	<u>-</u>	<u>3,811,712</u>

40. IMPAIRMENT PROVISION ON INVESTMENT SECURITIES

	Note	2016 YR 000s	2015 YR 000s
Impairment provision on available-for-sale investments	18.1	408,751	-
Impairment provision on investment securities at fair value through income statement	18.2	<u>1,144,069</u>	<u>615,022</u>
		<u>1,552,820</u>	<u>615,022</u>

41. STAFF COSTS

	2016 YR 000s	2015 YR 000s
Basic salaries	1,745,195	1,721,424
Bonuses and incentives	1,065,018	958,694
Contributions to social security	132,151	140,334
Others	<u>32,924</u>	<u>34,435</u>
	<u>2,975,288</u>	<u>2,854,887</u>

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42. OTHER EXPENSES

	2016	2015
	<u>YR 000s</u>	<u>YR 000s</u>
Zakat	604,689	504,008
Subscription to deposit insurance corporation	373,933	380,103
Professional and consulting fees	335,345	246,810
Rent	327,947	381,243
Transportation	252,228	161,540
Insurance	234,990	171,130
Maintenance	219,242	268,515
Cleaning	152,435	169,848
Subscriptions	127,092	125,280
Advertising and publicity	81,726	114,158
Water and electricity	54,661	39,510
Stationery	44,506	34,424
Training and studies	40,017	36,235
Communication	20,689	23,551
Fuel and lubricants	6,832	14,762
Government fees	3,495	5,871
Donations and charities	1,804	7,563
Hospitality	591	1,907
Information technology expenses	-	9,110
Others	414,886	528,204
	<u>3,297,108</u>	<u>3,223,772</u>

43. EARNINGS (LOSS) PER SHARE

	2016	2015
Net Profit (Loss) for the year (YR 000s)	<u>6,350,433</u>	<u>(3,198,694)</u>
Number of shares (thousand shares)	<u>20,000</u>	<u>20,000</u>
Earnings (Loss) per share (YR)	<u>317.5</u>	<u>(159.93)</u>

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44. MATURITIES OF FINANCIAL ASSETS AND LIABILITIES

	2016				
	Due within 3 months	Due from 3 to 6 months	Due from 6 months to one year	Due more than one year	Total
	YR Millions	YR Millions	YR Millions	YR Millions	YR Millions
<u>Assets</u>					
Cash on hand and reserve balances with CBY	38,284	-	-	-	38,284
Due from banks and financial institutions	133,096	-	-	-	133,096
Financing Murabaha and Istisna'a, transactions (net)	5,828	4,454	10,817	7,800	28,899
Musharaka investment contracts (net)	-	-	-	-	-
Mudaraba investment contracts (net)	2,918	-	-	26,477	29,395
Investment in Islamic Sukuk	60,126	-	-	-	60,126
Investment securities	-	-	31,805	7,358	39,163
Investment in real estate	-	-	-	161,264	161,264
Ijarah Muntahia Bittamleek receivables (net)	1	1	6	15	23
Qard Hasan (net)	-	1	1	1	3
	<u>240,253</u>	<u>4,456</u>	<u>42,629</u>	<u>202,915</u>	<u>490,253</u>
<u>Liabilities</u>					
Due to banks and financial institutions	6,073	-	-	-	6,073
Current accounts and other deposits	127,810	-	-	-	127,810
Equity of unrestricted investment and saving accounts' holders	<u>50,460</u>	<u>30,477</u>	<u>58,256</u>	<u>148,838</u>	<u>288,031</u>
	<u>184,343</u>	<u>30,477</u>	<u>58,256</u>	<u>148,838</u>	<u>421,914</u>
Net gap	<u>55,910</u>	<u>(26,021)</u>	<u>(15,627)</u>	<u>54,077</u>	<u>68,339</u>

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	2015				
	Due within 3 months YR Millions	Due from 3 to 6 months YR Millions	Due from 6 months to one year YR Millions	Due more than one year YR Millions	Total YR Millions
Assets					
Cash on hand and reserve balances with CBY	44,902	-	-	-	44,902
Due from banks and financial institutions	108,318	-	-	-	108,318
Financing Murabaha and Istisna'a, transactions (net)	11,320	4,043	3,751	15,975	35,089
Musharaka investment contracts (net)	-	-	-	-	-
Mudaraba investment contracts (net)	4,432	6,295	-	20,608	31,335
Investment in Islamic Sukuk	89,310	-	-	-	89,310
Investment securities	-	-	29,418	6,145	35,563
Investment in real estate	-	-	-	134,448	134,448
Ijarah Muntahia Bittamleek receivables (net)	3	1	2	10	16
Qard Hasan (net)	3	-	-	-	3
	<u>258,288</u>	<u>10,339</u>	<u>33,171</u>	<u>177,186</u>	<u>478,984</u>
Liabilities					
Due to banks and financial institutions	2,017	-	-	-	2,017
Current accounts and other deposits	141,602	-	-	-	141,602
Equity of unrestricted investment and saving accounts' holders	36,816	28,910	54,136	170,158	290,020
	<u>180,435</u>	<u>28,910</u>	<u>54,136</u>	<u>170,158</u>	<u>433,639</u>
Net gap	<u>77,853</u>	<u>(18,571)</u>	<u>(20,965)</u>	<u>7,028</u>	<u>45,345</u>

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

	2016					
	Industrial YR Millions	Commercial YR Millions	Agriculture and Fishing YR Millions	Financial YR Millions	Individuals & Others YR Millions	Total YR Millions
<u>Assets</u>						
Cash on hand and reserve balances with CBY	-	-	-	38,284	-	38,284
Due from banks and financial institutions	-	-	-	133,096	-	133,096
Financing Murabaha and Istisna'a transactions (net)	11,143	15,836	3	-	1,917	28,899
Musharaka investment contracts (net)	-	-	-	-	-	-
Mudaraba investment contracts (net)	-	29,395	-	-	-	29,395
Investment in Islamic Sukuk	-	-	-	60,126	-	60,126
Investment securities	-	-	-	39,163	-	39,163
Investments in real estate	298	160,966	-	-	-	161,264
Ijarah Muntahia Bittamleek receivables (net)	-	6	-	-	17	23
Qard Hasan (net)	-	-	-	-	3	3
<u>Liabilities</u>						
Due to banks and financial institutions	-	-	-	6,073	-	6,073
Current accounts and other deposits	8,723	40,805	-	218	78,064	127,810
Equity of unrestricted investment and saving accounts' holders	-	36,224	7	-	251,800	288,031
<u>Contingent liabilities and commitments (net)</u>						
Letters of guarantee	5	9,092	-	-	6,115	15,212
Letters of credit	1,310	1,952	-	-	128	3,390

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	2015					
	<u>Industrial</u>	<u>Commercial</u>	<u>Agriculture</u>	<u>Financial</u>	<u>Individuals</u>	<u>Total</u>
	<u>YR Millions</u>	<u>YR Millions</u>	<u>and Fishing</u>	<u>YR Millions</u>	<u>& Others</u>	<u>YR Millions</u>
			<u>YR Millions</u>		<u>YR Millions</u>	
<u>Assets</u>						
Cash on hand and reserve balances with CBY	-	-	-	44,902	-	44,902
Due from banks and financial institutions	-	-	-	108,318	-	108,318
Financing Murabaha and Istisna'a transactions (net)	6,481	25,570	9	-	3,029	35,089
Musharaka investment contracts (net)	-	-	-	-	-	-
Mudaraba investment contracts (net)	23,369	7,942	-	-	24	31,335
Investment in Islamic Sukuk	-	-	-	89,310	-	89,310
Investment securities	-	-	-	35,563	-	35,563
Investments in real estate	298	134,150	-	-	-	134,448
Ijarah Muntahia Bittamleek receivables (net)	-	16	-	-	-	16
Qard Hasan (net)	-	-	-	-	3	3
<u>Liabilities</u>						
Due to banks and financial institutions	-	-	-	2,017	-	2,017
Current accounts and other deposits	16,881	5,522	-	-	119,199	141,602
Equity of unrestricted investment and saving accounts' holders	701	3,174	-	-	286,145	290,020
<u>Contingent liabilities and commitments (net)</u>						
Letters of guarantee	-	20,082	-	-	-	20,082
Letters of credit	634	3,562	-	-	-	4,196

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

	2016					
	Republic of Yemen YR Millions	America YR Millions	Europe YR Millions	Asia YR Millions	Africa YR Millions	Total YR Millions
Assets						
Cash on hand and reserve balances with CBY	38,284	-	-	-	-	38,284
Due from banks and financial institutions	104,690	-	6,994	20,792	620	133,096
Financing Murabaha and Istisna'a transactions (net)	28,899	-	-	-	-	28,899
Musharaka investment contracts (net)	-	-	-	-	-	-
Mudaraba investment contracts (net)	13,398	-	-	15,997	-	29,395
Investment in Islamic Sukuk	57,190	-	2,936	-	-	60,126
Investment securities	2,266	-	1,739	29,135	6,023	39,163
Investments in real estate	135,075	-	3,674	20,245	2,270	161,264
Ijarah Muntahia Bittamleek receivables (net)	23	-	-	-	-	23
Qard Hasan (net)	3	-	-	-	-	3
Liabilities						
Due to banks and financial institutions	169	-	-	5,399	505	6,073
Current accounts and other deposits	127,810	-	-	-	-	127,810
Equity of unrestricted investment and saving account holders	288,031	-	-	-	-	288,031
Contingent liabilities and commitments (net)						
Letters of guarantee	15,212	-	-	-	-	15,212
Letters of credit	-	251	837	2,276	26	3,390

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	2015					
	Republic of Yemen YR Millions	America YR Millions	Europe YR Millions	Asia YR Millions	Africa YR Millions	Total YR Millions
Assets						
Cash on hand and reserve balances with CBY	44,902	-	-	-	-	44,902
Due from banks and financial institutions	83,374	137	16,689	7,554	564	108,318
Financing Murabaha and Istisna'a transactions (net)	35,089	-	-	-	-	35,089
Musharaka investment contracts (net)	-	-	-	-	-	-
Mudaraba investment contracts (net)	17,286	-	-	14,049	-	31,335
Investment in Islamic Sukuk	85,880	-	3,430	-	-	89,310
Investment securities	2,486	-	1,493	26,412	5,172	35,563
Investments in real estate	31,779	-	3,846	96,874	1,949	134,448
Ijarah Muntahia Bittamleek receivables (net)	16	-	-	-	-	16
Qard Hasan (net)	3	-	-	-	-	3
Liabilities						
Due to banks and financial institutions	159	-	-	1,455	403	2,017
Current accounts and other deposits	141,602	-	-	-	-	141,602
Equity of unrestricted investment and saving account holders	290,020	-	-	-	-	290,020
Contingent liabilities and commitments (net)						
Letters of guarantee	20,082	-	-	-	-	20,082
Letters of credit	-	328	683	3,142	43	4,196

47. SIGNIFICANT FOREIGN CURRENCIES' POSITIONS

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

	2016		2015	
	Surplus (deficit) YR 000's	% of capital & reserves	Surplus (deficit) YR 000's	% of capital & reserves
US Dollar	4,586,974	12.12 %	15,792,977	42.83 %
EURO	(537,144)	(1.42 %)	(664,999)	(1.80 %)
Saudi Riyals	4,623,874	12.22 %	1,302,434	3.53 %
Sterling Pound	36,308	0.10 %	(245,688)	(0.67 %)
Emirates Dirham	20,218,728	53.42 %	17,737,281	48.10 %
Other	69,739	0.18 %	156,747	0.43 %
Net surplus	28,998,479	76.62 %	34,078,752	92.42 %

The US Dollar exchange rate at December 31, 2016 was 250.25 YR (at December 31, 2015: US Dollar exchange rate was 214.89 YR).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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48. TRANSACTIONS WITH RELATED PARTIES

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

Related parties are presented by the Board of Directors, executive management, and companies owned by shareholders and board members.

The Bank deals with related parties on the same basis applied to third parties in accordance with Banks Law and Central Bank of Yemen instructions, included in Circular No. (4) of 1999, which limits credit transactions with related parties.

These transactions consist of direct and indirect financing transactions and other various transactions conducted as part of the Bank's normal activities.

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

	2016	2015
	<u>YR Millions</u>	<u>YR Millions</u>
Financing Murabaha and Istisna'a transactions	3,486	2,877
Current accounts and other deposits	63	143
Indirect financing	2,262	1,238
Income from financing Murabaha and Istisna'a transactions	155	256
Fees and commissions income	31	9
Wages and benefits	73	61

49. TAX POSITION

- Corporate and salaries taxes have been cleared up to the year 2006.
- The Bank has submitted the tax declaration for the year 2007 within the legal deadline. The Bank was notified with additional corporate tax assessment amounted YR 89 million. The Bank has appealed this assessment in Tax Court and the case is still in progress up to date. The Bank management believes that this additional assessment will not result in any additional liabilities.
- The Bank has submitted the tax declaration for the year 2008. The Bank was notified with additional assessment amounted to YR 885 million related to corporate tax. The Bank has appealed this assessment and the tax appeal committee has not issued any decision up to date. The Bank management believes that this additional assessment will not result in any additional liabilities.
- The Bank has submitted the tax declaration for the year 2009. On January 18, 2017, the Bank was notified of additional assessment amounted to YR 1,478 million related to corporate tax. The Bank has appealed this assessment in Tax Authority within the legal deadline. The Bank management believes that this additional assessment will not result in any additional liabilities.
- The Bank has submitted the tax declarations for the years from 2010 up to 2015. Inspections for these years are currently under review by the Tax Authority. The Bank has not received any notification of any other additional assessment for these years up to date.

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- The Bank has paid the salary tax for the years from 2010 till 2016 based on monthly declarations. No notification of any additional assessment was received for these years.

50. ZAKAT POSITION

- The Bank submits its Zakat declarations annually and remits the amount due based on the declaration.
- The Bank has paid Zakat until the end of the year 2015 according to the Zakat declaration. No additional assessment notification was issued by the Zakat Department.

51. CONTINGENT LIABILITIES

In the year 2013, Arcapita Bank B.S.C. has filed a legal case against the Group in US Bankruptcy Court Southern District of New York for setting off approximately US\$ 20 million (including the assets under management) of Wakala deposit against the amount placed with Arcapita Bank B.S.C. of US\$ 18.4 million (including the assets under management). The legal case is currently in progress in US Bankruptcy Court Southern District of New York. However, based on the opinion of the Group's legal counsel, management is confident that this will not result in any amount payable to Arcapita Bank.

In addition, the Group has filed a number of legal cases before the Public Fund Court and the Commercial Court against third parties, and management has provided for the necessary provisions for these cases. Also, there are legal cases filed against the Group at the respective courts, and the Group's management believes that there are no obligations that will arise on those cases.

52. COMPARATIVE FIGURES

Some comparative figures were reclassified to conform with the current year's financial statements classification for more appropriate presentation. These reclassifications did not affect the equity or retained earnings.

53. OPERATING ENVIRONMENT IN YEMEN

The Republic of Yemen suffered from political, security and economic crises, which starting from March 2015 resulted in a decline of the country's business and economic activities.

The final resolution and the effects of the above events are difficult to predict as the events' are still continuing at the date of issuing the consolidated financial statements for the year 2016. Management confirms it is taking appropriate measures to support the sustainability of the Bank's business in the current economic circumstances that could affect the consolidated financial statements for the year ended on December 31, 2016, management estimates of the fair values of the assets and liabilities, and the budget plan for the year 2017.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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THE SEPARATE FINANCIAL STATEMENTS FOR TADHAMON INTERNATIONAL ISLAMIC BANK – SANA'A, REPUBLIC OF YEMEN

1. STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2016

	2016 YR 000s	2015 YR 000s
Assets		
Cash on hand and reserve balances with Central Bank of Yemen (CBY)	38,284,339	44,901,774
Due from banks and financial institutions	120,619,228	99,590,562
Financing Murabaha and Istisna'a transactions (net)	28,898,883	35,088,898
Musharaka investment contracts (net)	-	-
Mudaraba investment contracts (net)	29,394,599	31,335,303
Investment in Islamic Sukuk	57,190,000	88,028,900
Investment securities	2,226,297	2,499,569
Investment in real estate	135,074,799	112,801,892
Ijarah Muntahia Bittamleek receivables (net)	23,589	15,726
Qard Hasan (net)	2,606	2,794
Investment in subsidiaries	8,667,890	2,439,651
Debit balances and other assets (net)	75,155,225	78,500,702
Property and equipment (net)	4,813,032	5,350,156
Total assets	<u>500,350,487</u>	<u>500,555,927</u>
Liabilities, investment accounts' holders and equity		
Liabilities		
Due to banks and financial institutions	6,614,213	2,017,420
Current accounts and other deposits	127,810,199	142,797,700
Credit balances and other liabilities	5,544,883	5,354,830
Other provisions	618,143	304,572
Total liabilities	140,587,438	150,474,522
Equity of unrestricted investment and saving accounts' holders	288,031,113	290,020,395
Total liabilities and investment accounts' holders	<u>428,618,551</u>	<u>440,494,917</u>
Equity		
Share capital	20,000,000	20,000,000
Statutory reserve	17,238,631	16,499,262
General reserve	261,246	261,246
Other reserves	32,188,178	25,446,380
Retained earnings (loss)	2,043,881	(2,145,878)
Total equity	<u>71,731,936</u>	<u>60,061,010</u>
Total liabilities, investment accounts' holders and equity	<u>500,350,487</u>	<u>500,555,927</u>
Contingent liabilities and commitments (net)	<u>18,602,482</u>	<u>24,278,088</u>

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THE SEPARATE FINANCIAL STATEMENTS FOR TADHAMON INTERNATIONAL ISLAMIC BANK – SANA'A, REPUBLIC OF YEMEN (continued)

2. INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016 YR 000s	2015 YR 000s
Income from financing Murabaha and Istisna'a transactions	4,253,565	4,903,238
Income from other joint investments	<u>10,126,814</u>	<u>12,437,157</u>
	14,380,379	17,340,395
Less: Return on unrestricted investments and saving accounts' holders	(12,047,752)	(12,696,092)
Bank's share from the income on Murabaha, Musharaka and joint investments	<u>2,332,627</u>	<u>4,644,303</u>
Fees and commission income	1,898,573	1,553,621
Less: Fees and commission expenses	(71,642)	(211,631)
Net fees and commission income	<u>1,826,931</u>	<u>1,341,990</u>
	4,159,558	5,986,293
Gains on foreign currency transactions	8,573,703	4,049,216
Other operating income	<u>384,898</u>	<u>2,351,277</u>
Total operating income	13,118,159	12,386,786
Less:		
Provisions	(1,260,292)	(3,832,354)
Loss on sale of investments (realized)	-	(3,811,712)
Impairment on investments in real estate	-	(1,360,329)
Impairment provision on investment securities	(408,751)	-
Staff costs	(2,349,598)	(2,293,463)
Depreciation of property and equipment	(700,898)	(714,127)
Other expenses	<u>(2,681,946)</u>	<u>(2,800,986)</u>
Net profit (loss) for the year before tax	5,716,624	(2,426,185)
Income tax for the year	(787,496)	-
Net profit (loss) for the year after income tax	<u>4,929,128</u>	<u>(2,426,185)</u>
Earnings (loss) per share	<u>YR 246.46</u>	<u>(YR 121.31)</u>



بنك التضامن الإسلامي الدولي
Tadhamon International Islamic Bank



TWENTY YEARS OF TADHAMON
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