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Consolidated financial statements and independent auditor's report

Tadhamon International Islamic Bank (Yemeni Closed Joint Stock Company)

December 31, 2013



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Independent Auditor's Report

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

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Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Tadhamon International Islamic Bank (Yemeni Closed Joint Stock Company) and its subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity, consolidated statement of cash flow, consolidated statement of changes in restricted investments and consolidated statement of sources and uses of Qard Hasan fund for the year then ended, and a summary of significant accounting policies and other explanatory notes (1-57).

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, the Accounting Standards for Islamic Financial Institutions, Central Bank of Yemen instructions and the Islamic Sharia'a principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of **Tadhamon International Islamic Bank (Yemeni Closed Joint Stock Company)** and its subsidiaries as at December 31, 2013 and its consolidated financial performance, its consolidated cash flows and consolidated sources and uses of Qard Hasan fund for the year then ended in accordance with the International Financial Reporting Standards, Accounting Standards for Islamic Financial Institutions, Central Bank of Yemen' instructions and Islamic Sharia'a principles.

Report on Other Legal and Regulatory Requirements

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

Grant Thornton Yemen

RamziL AL- Ariqi

Sana'a - Republic of Yemen
June 26, 2014

Consolidated Statement of Financial Position

December 31, 2013

	Notes	Dec. 31, 2013 YR 000s	Dec. 31, 2012 Restated YR 000s
Assets			
Cash on hand and reserve balances with Central Bank of Yemen	7	59,241,744	48,163,152
Due from banks and financial institutions	8	62,317,106	106,023,815
Murabaha contracts financing transactions, net	9	79,043,083	43,640,755
Istisna'a contracts financing transactions, net	11	8,233,000	8,747,274
Investments in Mudaraba contracts, net	13	29,369,639	28,579,889
Investments in Musharaka contracts, net	15	1,201,953	4,323,338
Ijarah Muntahia Bittamleek, net	17	2,913,229	3,018,248
Investments in real estate, net	19	162,339,807	120,176,175
Available for sale investments, net	20	28,473,064	37,650,958
Held - for - trading investments	21	205,774	2,887,175
Investments in Islamic Sukuk	22	76,606,595	30,391,308
Qard Hasan, net	23	2,211	3,762
Restricted investments		-	7,622,837
Debit balances and other assets, net	25	9,236,942	5,726,226
Property and equipment, net	27	5,988,382	3,894,673
Total assets		525,172,529	450,849,585
Liabilities, investments accounts' holders and shareholders' equity			
Liabilities			
Current accounts and other deposits	28	171,732,607	133,272,008
Due to banks and financial institutions	29	8,788,622	172,234
Credit balances and other liabilities	30	7,253,230	5,078,299
Other provisions	32	957,513	1,385,623
Total liabilities		188,731,972	139,908,164
Investments accounts' holders' equity			
Unrestricted investments and saving accounts' holders	33	279,778,092	242,177,759
Restricted investments accounts		-	7,622,837
Total investments accounts' holders' equity		279,778,092	249,800,596
Shareholders' equity			
Paid-up capital	35	20,000,000	20,000,000
Statutory reserve	36	16,499,262	16,292,817
General reserve	37	261,246	261,246
Other reserves	38	17,425,268	23,723,099
Accumulated gain (loss)		1,120,456	(49,397)
Total equity attributable to equity holders of parent		55,306,232	60,227,765
Non-controlling interest		1,356,233	913,060
Total shareholders' equity		56,662,465	61,140,825
Total liabilities, investments accounts' holders and shareholders' equity		525,172,529	450,849,585
Contingent liabilities and commitments, net	39	61,404,278	49,521,042
Total contingent liabilities and commitments		61,404,278	49,521,042

Financial Manager

Mr. Basheer Sultan Al-Maqtari

General Manager

Mr. Mahmoud Ata AL- Rifae

Chairman

Mr. Abdul jabbar Hayel Saeed

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2013

	Notes	Dec. 31, 2013 YR 000s	Dec. 31, 2012 Restated YR 000s
Revenue of Murabaha and Istisna'a financing transactions	40	6,590,169	6,301,249
Revenue from other joint investments	41	21,814,605	19,371,456
		28,404,774	25,672,705
Less:			
Return on unrestricted investments and saving accounts		(14,565,013)	(14,160,821)
		13,839,761	11,511,884
Commissions and bank services charges revenue	42	2,303,195	1,794,731
Less: Commissions expenses and bank service charges		(84,623)	(50,890)
Foreign currencies exchange gain (loss)	43	894,578	(2,530,260)
Impairment of available for sale investments		(911,867)	(2,456,715)
Gain on sale of property and equipment		620,038	240,774
Other operating income	44	546,868	1,727,100
Operating profit		17,207,950	10,236,624
Less:			
Provisions	45	(7,765,419)	(1,595,906)
Amortization foreign real estate investments		(593,320)	-
General and administrative expenses and depreciation	46	(7,471,235)	(6,190,172)
Net profit for the year		1,377,976	2,450,546
Attributable to:			
Equity holders of the parent		1,376,298	2,433,173
Non-controlling interest -Tadhamon Capital		1,678	17,373
Net profit for the year		1,377,976	2,450,546
Earning per share	47	69	122
Net profit for the year		1,377,976	2,450,546
Net change of fair value:			
Available for sale investments	38	43,653	331,151
Investments in real estate	38	3,485,173	3,585,050
Total comprehensive income for the year		3,528,826	3,916,201
Attributable to:			
Equity holders of the parent		3,527,148	3,915,101
Non-controlling interest		1,678	1,100
		3,528,826	3,916,201

Financial Manager

Mr. Basheer Sultan Al-Maqtari

General Manager

Mr. Mahmoud Ata AL- Rifae

Chairman

Mr. Abdul jabbar Hayel Saeed

Consolidated Statement of Changes in Shareholders' Equity

For the year ended December 31, 2013

	Paid-Up Capital YR 000s	Statutory Reserve YR 000s	General Reserve YR 000s	Other Reserves YR 000s	Accumulated gain (loss) YR 000s	Equity Attributable to Equity Holders of Parent YR 000s	Non- Controlling Interest YR 000s	Total YR 000s
For the year ended Dec. 31, 2013								
Balance at January 1, 2013	20,000,000	16,292,817	261,246	23,723,099	(49,397)	60,227,765	913,060	61,140,825
Net movement in fair value reserve	-	-	-	3,560,260	-	3,560,260	-	3,560,260
Net profit for the year	-	-	-	-	1,376,298	1,376,298	-	1,376,298
Net profit for the rights of non-controlling interests – Tadhamon Capital	-	-	-	-	-	-	1,678	1,678
Gain on sale of investments in affiliates	-	-	-	-	-	-	432,715	432,715
Dividends to affiliates	-	-	-	-	-	-	9,280	9,280
Dividends to shareholders	-	-	-	-	-	-	(500)	(500)
Transferred to reserves	-	206,445	-	-	(206,445)	-	-	-
Used during the year	-	-	-	(9,858,091)	-	(9,858,091)	-	(9,858,091)
Balance at December 31, 2013	20,000,000	16,499,262	261,246	17,425,268	1,120,456	55,306,232	1,356,233	56,662,465

Consolidated Statement of Changes in Shareholders' Equity (Continued)

For the year ended December 31, 2013

	Paid-Up Capital YR 000s	Statutory Reserve Restated YR 000s	General Reserve YR 000s	Other Reserves Restated YR 000s	Accumulated gain (loss) Restated YR 000s	Equity Attributable to Equity Holders of Parent Restated YR 000s	Non- Controlling Interest Restated YR 000s	Total Restated YR 000s
For the year ended Dec. 31, 2012								
Balance at January 1, 2012	20,000,000	15,900,069	261,246	25,753,811	(91,501)	61,823,625	49,243	61,872,868
Non-controlling interest - Tadhamon Capital	-	-	-	-	-	-	859,560	859,560
Net movements in fair value reserve	-	-	-	3,916,201	-	3,916,201	-	3,916,201
Net movements in foreign currencies revaluation differences	-	-	-	34,383	1,679	36,062	-	36,062
Net profit for the year	-	-	-	-	2,433,173	2,433,173	1,100	2,434,273
Net profit for non-controlling interest - Tadhamon Capital	-	-	-	-	-	-	16,273	16,273
Dividends to shareholders - Tadhamon Capital	-	-	-	-	(2,000,000)	(2,000,000)	(13,116)	(13,116)
Transferred to reserves	-	392,748	-	-	(392,748)	-	-	(2,000,000)
Used during the year	-	-	-	(5,981,296)	-	(5,981,296)	-	(5,981,296)
Balance at December 31, 2012	20,000,000	16,292,817	261,246	23,723,099	(49,397)	60,227,765	913,060	61,140,825

Financial Manager

Mr. Basheer Sultan AL-Maqtari

General Manager

Mr. Mahmoud Ata AL- Rifae

Chairman

Mr. Abdul jabbar Hayel Saeed

See accompanying notes to the financial statements

Consolidated Statement of Cash Flows

For the year ended December 31, 2013

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
<u>Cash flows from operating activities:</u>		
Net profit for the year	1,377,976	2,436,461
<u>Adjustments to reconcile net profit to cash flows from operating activities</u>		
Depreciation of property and equipment	1,031,772	499,158
Provisions	7,781,336	2,389,858
Provision for end of service compensation	13,714	8,585
Gain on sale of property and equipment	(620,038)	(240,774)
Transferred to statutory reserve	(206,445)	(392,748)
Dividends to non-controlling interests	(1,678)	(17,373)
Impairment of available for sale investments	-	2,456,715
Unrealized gain from impairment of investments in real estate	-	5,981,196
Provisions used	(666,970)	(786,863)
Provisions reversed	(551,697)	(2,004,198)
Revaluation differences of property and equipment by foreign currencies	(10,120)	2,568
Return of unrestricted investments and saving accounts	-	14,160,821
Operating profit before changes in assets and liabilities related to operating activities	8,147,850	24,493,406
Increase in reserve balances with CBY	(6,663,706)	(985,185)
Decrease (increase) in Qard Hasan	1,567	(3,529)
(Increase) decrease in debit balances and other assets	(3,780,492)	700,479
Increase in credit balances and other liabilities	2,174,931	652,638
Net cash flows (used in) from operating activities (1)	(119,850)	24,857,809
<u>Cash flows from investing activities:</u>		
Increase in Murabaha contracts financing transactions	(36,125,956)	(3,008,078)
Decrease in Istisna'a contracts financing transactions	529,660	2,607,325
Increase in investments in Mudaraba contracts, net	(4,121,019)	(3,954,074)
Decrease (increase) in Ijarah Muntahia Bittamleek, net	95,382	(2,713,059)
Decrease in investments in Musharaka contracts, net	3,632,003	8,719,030
Increase in investments in real estate	(42,163,632)	(10,644,635)
Decrease (increase) in held-for-trading investments	2,681,401	(2,018,798)
Proceeds from sale of property and equipment	1,296,000	1,489,763
Decrease in credit balances of Murabaha	-	(22,250)
Decrease in available for sale investments	5,967,977	2,585,201
Increase in investments in Islamic Sukuk	(46,215,287)	(29,242,733)
Increase in investments in financial institutions	(4,145,937)	(496,830)
Purchases of property and equipment	(3,791,323)	(841,363)
Net cash flows used in investing activities (2)	(122,360,731)	(37,540,501)

Consolidated Statement of Cash Flows (Continued)

For the year ended December 31, 2013

	Notes	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Cash flow from financing activities:			
Increase in statutory reserve		206,445	392,748
Decrease in other reserves		(6,297,831)	(2,016,628)
Decrease in unrestricted investments and saving accounts		37,600,333	29,739,899
Decrease in current account and other deposits		38,460,599	61,860,027
Increase (decrease) in due to banks and financial institutions		8,616,388	(6,550,686)
Profits of non-controlling interest		456,887	863,817
Dividends paid to depositors		-	(14,160,821)
Dividends paid to shareholders and Board of Directors		-	(2,000,000)
Net cash flows from financing activities (3)		79,042,821	68,128,356
Net change in cash and cash equivalents(1+2+3)		(43,437,760)	55,445,664
Cash and cash equivalents at January 1		107,050,711	51,605,047
Cash and cash equivalents at December 31		63,612,951	107,050,711
Cash and cash equivalents consist of:			
Cash on hand and balances at CBY, other than reserve		59,556,752	69,958,817
Due from banks and financial institutions maturing within 3 months		4,056,199	37,091,894
		63,612,951	107,050,711

Financial Manager

Mr. Basheer Sultan Al-Maqtari

General Manager

Mr. Mahmoud Ata AL- Rifae

Chairman

Mr. Abdul jabbar Hayel Saeed

See accompanying notes to the consolidated financial statements

Consolidated Statement of Change in Restricted Investments

For the year ended December 31, 2013

	Trade in Real estate		Total	
	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
	YR 000s	YR 000s	YR 000s	YR 000s
Investments as at December 31	-	7,622,837	-	7,622,837
Number of units as at December 31	-	3	-	3

Financial Manager

Mr. Basheer Sultan Al-Maqtari

General Manager

Mr. Mahmoud Ata AL- Rifae

Chairman

Mr. Abdul jabbar Hayel Saeed

See accompanying notes to the financial statements

Consolidated Statement of Sources and Uses of Qard Hasan Fund

For the year ended December 31, 2013

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Balance as at January 1:		
Outstanding utilized loans	3,762	233
Add: Sources of Qard Hasan Fund		
Transferred from customers' current accounts	-	4,367
Less: Uses of Qard Hasan Fund		
Payment to customers' current accounts	(1,529)	(800)
	2,233	3,800
Balance as at December 31:		
Outstanding utilized loans	2,233	3,800
Less: Qard Hasan fund provision	(22)	(38)
	2,211	3,762

The following shows the transactions of Qard Hasan provision:

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Balance as at January 1	38	-
Provided during the year	-	38
Provision reversed	(16)	-
Balance as at December 31	22	38

Financial Manager

Mr. Basheer Sultan Al-Maqtari

General Manager

Mr. Mahmoud Ata AL- Rifae

Chairman

Mr. Abdul jabbar Hayel Saeed

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

1. Background

Tadhamon International Islamic Bank (the Bank) - a Yemeni closed joint-stock company - was established under the name of Yemen Islamic Bank for Investment and Development in accordance with the Ministerial Decree No. (147) for the year 1995. The name of the Bank has been changed to Tadhamon Islamic Bank according to the Ministerial Decree No. (169) for the year 1996. The Extraordinary General Assembly decided on March 20, 2002 to change the name of the Bank to Tadhamon International Islamic Bank. The objectives of the Bank are to finance, invest, and offer banking services in accordance with Article No. (3) of the Bank's Articles of Association which states that the bank performs its activities in conformity with the precepts of Islamic Shari'a.

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

Subsidiaries name	Percentage of equity	
	2013	2012
Tadhamon Capital B.S.C - Bahrain	99.9%	99.9%
Tadhamon Real Estate Ltd.-Yemen	95%	95%
Al-Wedad for Trading and Investment - Yemen	95%	95%

The consolidated financial statements for the year ended December 31, 2013 (including comparatives) were approved and authorized for issue by the Board of Directors on June 22, 2014. The board suggests to approve the consolidated financial statements by the shareholders general assembly.

2. Preparation basis of the consolidated financial statements

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

3. Changes in accounting policies

3.1 New and revised standards that are effective for annual periods beginning on or after 1 January 2013

A number of new and revised standards are effective for annual periods beginning on or after January 1, 2013. Information on these new standards is presented below.

- **IFRS 10 'Consolidated Financial Statements' (IFRS 10)**

IFRS 10 supersedes IAS 27 'Consolidated and Separate Financial Statements' (IAS 27) and SIC 12 'Consolidation-Special Purpose Entities'. IFRS 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the investees are considered to be subsidiaries and therefore to change the scope of consolidation. The requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary are unchanged.

- **IFRS 11 'Joint Arrangements' (IFRS 11)**

IFRS 11 supersedes IAS 31 'Interests in Joint Ventures' (IAS 31) and SIC 13 'Jointly Controlled Entities-Non-Monetary-Contributions by Venturers'. IFRS 11 revises the categories of joint arrangement, and the criteria for classification into the categories, with the objective of more closely aligning the accounting with the investor's rights and obligations relating to the arrangement. In addition, IAS 31's option of using proportionate consolidation for arrangements classified as jointly controlled entities under that Standard has been eliminated. IFRS 11 now requires the use of the equity method for arrangements classified as joint ventures (as for investments in associates).

- **IFRS 12 'Disclosure of Interests in Other Entities' (IFRS 12)**

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

- **Consequential amendments to IAS 27 'Separate Financial Statements' (IAS 27) and IAS 28 'Investments in Associates and Joint Ventures' (IAS 28)**

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

- **IFRS 13 'Fair Value Measurement' (IFRS 13)**

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of IFRS 13 is broad and it applies for both financial and non-financial items for which other IFRSs require or permit fair value measurements or disclosures about fair value measurements except in certain circumstances.

IFRS 13 applies prospectively for annual periods beginning on or after January 1, 2013. Its disclosure requirements need not be applied to comparative information in the first year of application.

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

The 2011 amendments to IAS 19 made a number of changes to the accounting for employee benefits, the most significant relating to defined benefit plans.

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

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

- **IFRS 9 'Financial Instruments' (IFRS 9)**

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

4. Significant accounting policies

4.1 Accounting convention

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

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

4.2 Consolidated financial statements

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

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

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

4.3 Valuation of Murabaha and Istisna'a financing transactions

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

In order to comply with the requirements of CBY, provision is provided for specific debts and contingent liabilities, in addition to a percentage for general risk calculated on the total of Murabaha and Istisna'a contracts or contingent liabilities, in addition to a percentage for general risk calculated on the total investments of Murabaha and Istisna'a contracts and contingent liabilities after deducting balances secured by deposits and banks' guarantees issued by foreign worthy banks. Provision is determined based on periodical comprehensive reviews of the portfolio and contingent liabilities and made in accordance with the following minimum rates:

Performing debts including watch list	1%
Non - performing debts	
Substandard debts	15%
Doubtful debts	45%
Bad debts	100%

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

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

4.4 Valuation of investments in Mudaraba and Musharaka contracts

Investments in Mudaraba and Musharaka contracts are recorded on the basis of the amount paid to the capital of Mudaraba or Musharaka. Investments in in-kind Mudaraba and Musharaka contracts are recorded based on the agreed-upon value between the Bank and the customer or partner. Accordingly, any differences between this value and the book value are recorded as profits or losses in the consolidated statement of comprehensive income.

In order to comply with the requirements of CBY, provision is provided for specific Mudaraba and Musharaka contracts which realized losses, in addition to a percentage for general risk calculated on the total investments of other Mudaraba and Musharaka contracts after deducting balances secured by deposits and banks' guarantees issued by worthy banks.

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

Performing debts including watch list	1%
Non - performing debts	
Substandard debts	15%
Doubtful debts	45%
Bad debts	100%

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

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

4.5 Ijarah Muntahia Bittamleek

Assets acquired for Ijarah Muntahia Bittamleek are recorded at historical cost less accumulated depreciation and impairment losses. They are depreciated, except for land, over the Ijarah term.

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

4.6 Valuation of investments in real estate

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

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

4.7 Valuation of available for sale investments

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

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

4.8 Valuation of held-for-trading investments

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

4.9 Valuation of investments in associates

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

4.10 Investments in Islamic (Sukuk)

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

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

4.11 Valuation of restricted investments

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

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

Assets for which titles have been transferred to the Bank are recorded in the consolidated statement of financial position under "Debit balances and other assets" at the values carried by the Bank less any impairment in its value at the consolidated financial statements' date. This impairment is charged to the consolidated statement of comprehensive income, in case of increase on these assets the difference are recognized in the consolidated statement of comprehensive income to the extent of impairment previously recognized.

4.13 Property and equipment

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

	<u>Estimated Useful Lives</u>
Buildings	40 Years
Machinery & equipment	10 Years
Motor vehicles	5 Years
Furniture and fixtures	5-4 Years
Computer equipment	5 Years

4.14 Impairment of assets

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

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

4.15 Lease Contractss

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

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

4.16 Other provisions

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

4.17 End of service benefit

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

4.18 Taxation

For the Group operations inside Yemen, the taxes are calculated in accordance with the prevailing laws and regulations in the Republic of Yemen. For the Group operations outside Yemen, taxes are calculated based on tax laws and regulations in other countries in which the Group operates. Provision for tax liabilities is made after conducting the necessary studies and in consideration of tax assessments.

4.19 Contingent liabilities and commitments

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

4.20 Cash flows statement

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

4.21 Cash and cash equivalents

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

4.22 Revenue recognition

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

1. Profits on Murabaha and Istisna'a contracts are recorded on the accrual basis as all profits at the completion of Murabaha contract are recorded as deferred revenues and taken to the consolidated statement of comprehensive income, depending on the finance percentage, using the straight line method over the term of contract.
2. The non-performing Murabaha contracts profit haven't been recorded in the comprehensive income statement to agree with instructions to the Central Bank of Yemen.

b. Revenue of Investments in Mudaraba and Musharaka contracts

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

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

c. Revenue of Commissions' revenues and bank services

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

d. Revenue of Investments in associates

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

e. Revenue of Available for sale investments

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

f. Revenue of Ijarah Muntahia Bittamleek

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

g. Islamic Sukuk

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

4.23 Prohibited revenues

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

4.24 Profits distribution between holders of unrestricted investment account and shareholders

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

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

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

4.25 Foreign currencies transactions

Functional currency for the group

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

Foreign currencies translations

Transactions in other currencies are recorded during the financial year at the prevailing exchange rates at the date of transaction. Balances of monetary assets and liabilities in other currencies at the end of the financial year are translated at the prevailing exchange rates on that date. Gains or losses resulting from translation are taken to the consolidated statement of comprehensive income.

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

The Bank does not engage in forward contracts to meet its obligations in foreign currencies, nor does it engage in foreign exchange contracts to cover the risk of settlement of future liabilities in foreign currencies.

4.26 Supervision of Central Bank of Yemen

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

4.27 Sharia'a board

The Group's activities are subject to the supervision of the Sharia'a Board to monitor the Bank's activities according to the Islamic Sharia' rules.

4.28 Zakat

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

5. Financial instruments and managing their related risks

5.1 Financial instruments

- a. The Group's financial instruments consist of financial assets and liabilities. Financial assets include cash balances, current accounts, deposits with banks and financing of Murabaha, Istisna'a, Mudaraba and Musharaka transactions, investment property, Ijarah Muntahia Bittamleek, financial investments, investments in associates and investments in Islamic Sukuk. Financial liabilities include current and saving accounts, due to banks and investment accounts. Also, financial instruments include rights and obligations stated in contingent liabilities and commitments.

Note (4) to the consolidated financial statements includes significant accounting policies applied for recording and measuring significant financial instruments and their related revenues and expenses.

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

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

	Dec. 31, 2013		Dec. 31, 2012	
	Net Book Value	Net Fair Value	Net Book Value	Net Fair Value
	YR 000s	YR 000s	Restated YR 000s	Restated YR 000s
Financial asset				
Cash on hand and reserve balance with the CBY	59,241,744	59,241,744	48,163,152	48,163,152
Due from banks and financial institutions	62,317,106	62,317,106	106,023,815	106,023,815
Murabaha contracts financing transactions, net	79,043,083	79,043,083	43,640,755	43,640,755
Istisna'a contracts financing transactions, net	8,233,000	8,233,000	8,747,274	8,747,274
Investments in Mudaraba contracts, net	29,369,639	29,369,639	28,579,889	28,579,889
Investments in Musharaka contracts, net	1,201,953	1,201,953	4,323,338	4,323,338
Ijarah Muntahia Bittamleek, net	2,913,229	2,913,229	3,018,248	3,018,248
Investments in real estate, net	162,339,807	162,339,807	120,176,175	120,176,175
Available for sale investments, net	28,473,064	28,473,064	37,650,958	37,650,958
Held-for-trading investments	205,774	205,774	2,887,175	2,887,175
Investments in Islamic Sukuk	76,606,595	76,606,595	30,391,308	30,391,308
Qard hasan, net	2,211	2,211	3,762	3,762
Restricted investments	-	-	7,622,837	7,622,837
Financial liabilities				
Current accounts and other deposits	171,732,607	171,732,607	133,272,008	133,272,008
Due to banks and financial institutions	8,788,622	8,788,622	172,234	172,234
Unrestricted investments and saving accounts	279,778,092	279,778,092	242,177,759	242,177,759

c. Fair Value Hierarchy:

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

Level 1: Fair values are based on quoted prices (unadjusted) in active markets for identical assets.

Level 2: Fair values are based on inputs other than quoted prices included within level 1 that are observable for the assets either directly (i.e. as price) or indirectly (i.e. derived from prices).

Level 3: Fair values are based on inputs for assets that are not based on observable market data.

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

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

5.2 Risk management of financial instruments

Risk is inherent in the Group's activities but it is managed through a process of on-going identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. Information compiled from all businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors (ultimately responsible for identifying and controlling risks), the risk committee, and the head of each business division. The Group is exposed to credit risk, liquidity risk, interest rate risk, currency risk, operating risk and other risks.

a. Credit risk

Financing of Murabaha, Istisna'a, Mudaraba, Musharaka transactions and Ijarah Muntahia Bittamleek and their related debts, current accounts, deposits with banks and financial investments and rights and obligations from others are considered financial assets exposed to credit risk. Credit risk represents the inability of these parties to meet their obligations when they fall due. In order to comply with CBY circular No. 10 of 1997 regarding the credit risk exposure, the Group adheres to certain minimum standards in order to properly manage its credit risk such as:

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

The table below shows the maximum exposure to credit risk for the components of the financial position. The maximum exposure is shown gross, before the effect of mitigation by the use of collateral agreements:

	Dec. 31, 2013	Dec. 31, 2012
	YR 000s	Restated YR 000s
Investments in real estate, net	162,339,807	120,176,175
Murabaha financing transactions, net	79,043,083	43,640,755
Investments in Islamic Sukuk	76,606,595	30,391,308
Due from banks and financial institutions	62,317,106	106,023,815
Cash on hand and reserve balances CBY (excluding cash on hand and ATM)	37,364,988	30,701,282
Available for sale investments, net	28,473,064	37,650,958
Investments in Mudaraba contracts, net	29,369,639	28,579,889
Istisna'a financing transactions, net	8,233,000	8,747,274
Ijarah Muntahia Bittamleek, net	2,913,229	3,018,248
Investments in Musharaka contracts, net	1,201,953	4,323,338
Held-for-trading investments	205,774	2,887,175
Qard hasan, net	2,211	3,762
Restricted investments	-	7,622,837
Debit balances and other assets	9,236,942	5,726,226
	497,307,391	429,493,042
Contingent liabilities and commitments	61,404,278	49,521,042
Total credit exposure	558,711,669	479,014,084

The Group manages concentration of risk by distributing the portfolio and contingent liabilities and commitments over diversified economic sectors and geographical locations. Note No. (49) shows the distribution of assets, liabilities, contingent liabilities and commitment based on economic sectors and Note No. (50) shows the distribution of financial instruments based on geographical locations at the consolidated financial statement date.

b. Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations when they fall due and other risks related to sufficient liquidity without incurring losses on timely basis. To limit this risk, the Group's management in addition to its core deposit base, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis and has arranged diversified funding sources.

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

Liabilities	Less than 3 Months YR 000s	From 3 Months to 6 Months YR 000s	2013		Over 1 Year YR 000s	Total YR 000s
			From 6 Months to 1 Year YR 000s			
Due to banks and financial institutions	8,788,622	-	-	-	-	8,788,622
Current accounts and other deposits	171,732,607	-	-	-	-	171,732,607
Unrestricted investments and saving account's Holders	38,245,000	31,652,000	61,939,000	147,942,092	-	279,778,092
Restricted investments	-	-	-	-	-	-
Total liabilities	218,766,229	31,652,000	61,939,000	147,942,092	-	460,299,321

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

In addition to the above, Note No. (48) shows the maturity analysis of assets and liabilities and the net gap between them at the consolidated financial statements compared with last year.

c. Return rate risk

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

Note No. (34) shows the average allocation of investment and saving accounts return rate during the year compared with the last year.

d. Exchange rate risk

Due to the nature of the Bank's activity, the Bank deals in different foreign currencies, hence it is exposed to exchange rate risk. In order to minimize the exposure to exchange rate risk, the Bank is trying to maintain a balanced foreign currencies position in compliance with CBY instructions and the requirements of CBY circular No. (6) of 1998 which specifies that individual foreign currency positions should not exceed 15% of the Bank's capital and reserves, and that the aggregate open position for all foreign should not exceed 25% of the Bank's capital and reserves.

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

The table below shows significant net foreign currencies positions during the year compared with last year:

	US dollar YR 000s	EURO YR 000s	2013 Saudi Rial YR 000s	Sterling Pound YR 000s	UAE Dirham YR 000s	Bahrain Dinar YR 000s
Assets	174,686,945	4,863,913	101,688,293	5,604,539	42,066,636	6,987,399
Liabilities	146,962,378	2,521,263	105,253,269	248,909	7,225,142	306,090
Net currencies position	27,724,567	2,342,650	(3,564,976)	5,355,630	34,841,494	6,681,309

	Japanese YEN YR 000s	Kuwaiti Dinar YR 000s	2013 Swissair Frank YR 000s	Sudanese Pound YR 000s	Jordanian Dinar YR 000s	Total YR 000s
Assets	182,218	2,082,183	384,917	-	309,803	338,856,846
Liabilities	7,212	526,930	1,494	-	-	263,052,687
Net currencies position	175,006	1,555,253	383,423	-	309,803	75,804,159

	US dollar YR 000s	EURO YR 000s	2012 Saudi Rial YR 000s	Sterling Pound YR 000s	UAE Dirham YR 000s	Bahrain Dinar YR 000s
Assets	141,445,506	2,583,566	76,520,528	4,289,559	33,737,313	6,680,957
Liabilities	126,614,446	2,854,937	66,400,179	450,992	256,115	-
Net currencies position	14,831,060	(271,371)	10,120,349	3,838,567	33,481,198	6,680,957

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

Note No. (51) to the consolidated financial statements indicate the significant foreign currencies' positions at the consolidated financial statements date compared with the last year.

e. Operational risk

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

f. Other risks

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

6. Capital management

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

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and the Group maintains strong credit ratings and excellent capital ratios in order to support its business and to maximize shareholders' value. The CBY requires each bank in Yemen to maintain a minimum ratio of total capital to the risk weighted assets at or above the internationally agreed minimum of 8%.

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

	Dec. 31, 2013 YR Millions	Dec. 31, 2012 YR Millions
Core capital	37,860	36,554
Supplementary capital	1,804	1,142
Total capital	39,664	37,696
Risk-weighted assets and liabilities:		
Total assets	247,352	236,352
Contingent liabilities and commitments	28,590	22,615
Total risk-weighted assets and liabilities	275,942	258,967
Capital adequacy ratio	14.37%	14.56%

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

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

This item consists of the following as of December 31:

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Cash on hand and ATM machines - local currency	7,742,420	6,302,724
Cash on hand and ATM machines - foreign currency	14,133,415	11,159,146
	21,875,835	17,461,870
Reserve balances at CBY - local currency	14,235,733	11,755,720
Reserve balances at CBY - foreign currency	23,129,255	18,945,562
	37,364,988	30,701,282
Cash equivalents (gold and silver)	921	-
	59,241,744	48,163,152

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

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

8. Due from banks and financial institutions

This item consists of the following as of December 31:

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 Restated YR 000s
<u>Central Bank of Yemen</u>		
Current accounts - local currency	34,622,569	46,810,336
Current accounts - foreign currency	3,057,427	5,686,611
	37,679,996	52,496,947
<u>Foreign Banks & Financial Institutions</u>		
Current accounts	4,056,199	37,091,894
Deposits with Islamic banks and financial institutions	20,580,911	16,434,974
	24,637,110	53,526,868
	62,317,106	106,023,815

9. Murabaha contracts financing transactions, net

This item consists of the following as of December 31:

	Note	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Murabaha contracts financing transactions		86,319,493	48,389,981
Less: Murabaha financing transactions provision	10	(3,562,826)	(2,839,198)
Less: Deferred revenues		(3,713,584)	(1,910,028)
		79,043,083	43,640,755

Non-performing Murabaha financing transactions amounting to YR 6,296,248 thousand at December 31, 2013 (2012: 2,605,140 thousand). The breakup of the above amount is as follow:

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Substandard financing	4,144,387	5,892
Doubtful financing	24,612	414,212
Bad financing	2,127,249	2,185,036
	6,296,248	2,605,140

10. Murabaha contracts financing transactions provision

This item consists of the following as of December 31:

	Specific YR 000s	2013 General YR 000s	Total YR 000s	Specific YR 000s	2012 General YR 000s	Total YR 000s
Balance at January 1,	2,397,899	441,299	2,839,198	3,122,124	380,917	3,503,041
Created during the year	362,083	376,632	738,715	-	60,382	60,382
Used during the year	-	(15,087)	(15,087)	-	-	-
Provision reversed	-	-	-	(724,225)	-	(724,225)
Balance at December 31,	2,759,982	802,844	3,562,826	2,397,899	441,299	2,839,198

11. Istisna'a contracts financing transactions, net

This item consists of the following as of December 31:

	Note	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Istisna'a contracts financing transactions		9,272,879	9,823,176
Less: Istisna'a financing transactions provision	12	(94,516)	(109,902)
Less: Deferred revenues		(945,363)	(966,000)
		8,233,000	8,747,274

Non-performing Istisna'a financing transaction amounting to YR 13,603 thousand at December 31, 2013 (2012: YR 28,553 thousand). The breakup of the above amount is as follows:

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Substandard financing	9,320	15,556
Doubtful financing	-	6,301
Bad financing	4,283	6,696
	13,603	28,553

12. Istisna'a contracts financing transactions provision

This item consists of the following as of December 31:

	2013			2012		
	Specific YR 000s	General YR 000s	Total YR 000s	Specific YR 000s	General YR 000s	Total YR 000s
Balance at January 1,	(19,997)	129,899	109,902	5,178	159,229	164,407
Created during the year	25,677	-	25,677	8,084	-	8,084
Used during the year	-	-	-	-	-	-
Provision reversed	-	(41,063)	(41,063)	(33,259)	(29,330)	(62,589)
Balance at December 31,	5,680	88,836	94,516	(19,997)	129,899	109,902

13. Investments in Mudaraba contracts, net

This item consists of the following as of December 31:

	Note	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Investments in Mudaraba contracts - foreign		14,672,756	14,444,994
Investments in Mudaraba contracts - local		18,727,292	14,834,035
		33,400,048	29,279,029
Less: Investments in Mudaraba contracts provision	14	(4,030,409)	(699,140)
		29,369,639	28,579,889

14. Investments in Mudaraba contracts provision

This item consists of the following as of December 31:

	2013			2012		
	Specific YR 000s	General YR 000s	Total YR 000s	Specific YR 000s	General YR 000s	Total YR 000s
Balance at January 1,	723,071	(23,931)	699,140	1,115,968	20,082	1,136,050
Created during the year	3,289,450	41,819	3,331,269	543,600	105,659	649,259
Transferred from general to specific provision	-	-	-	47,400	(47,400)	-
Used during the year	-	-	-	-	-	-
Provision reversed	-	-	-	(983,897)	(102,272)	1,086,169
Balance at December 31,	4,012,521	17,888	4,030,409	723,071	(23,931)	699,140

15. Investments in Musharaka contracts, net

This item consists of the following as of December 31:

	Note	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Investments in Musharaka contracts - foreign		1,831,558	4,990,815
Investments in Musharaka contracts - local		85,202	557,948
		1,916,760	5,548,763
Less: Investments in Musharaka contracts provision	16	(714,807)	(1,225,425)
		1,201,953	4,323,338

Part of Musharaka investments amounting to YR 1,038,265 has been reclassified to available for sale investments and the related provision of available for sale investments amounting to YR 500,358 because of the nature of these investments.

16. Investments in Musharaka contracts provision

This item consists of the following as of December 31:

	Specific YR 000s	2013 General YR 000s	Total YR 000s	Specific YR 000s	2012 General YR 000s	Total YR 000s
Balance at January 1,	1,236,435	(11,010)	1,225,425	458,939	122,287	581,226
Created during the year	-	-	-	1,013,948	4	1,013,952
Transferred from general to specific provision	(11,010)	11,010	-	5,576	(5,576)	-
Used during the year	-	-	-	-	-	-
Provision reversed	(510,618)	-	(510,618)	(242,028)	(127,725)	(369,753)
Balance at December 31,	714,807	-	714,807	1,236,435	(11,010)	1,225,425

17. Ijarah Muntahia Bittamleek, net

This item consists of the following as of December 31:

	Note	Dec. 31, 2013 YR 000s	Dec. 31, 2012 Restated YR 000s
Total cost*		2,939,413	3,040,780
Less: Deferred revenues		(15,869)	(21,854)
Less: Investments in Ijarah contracts provision	18	(10,315)	(678)
Net book value		2,913,229	3,018,248

* The amount mentioned above includes Ijarah amounting to YR 2,861,128 thousand related to Tadhamon Capital Company.

18. Investment in Ijarah contract provision

This item consists of the following as of December 31:

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Balance at January 1,	678	-
Created during the year	9,637	678
Used during the year	-	-
Balance at December 31,	10,315	678

19. Investments in real estate, net

This item consists of the following as of December 31:

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Investments in real estate - foreign	118,790,987	85,178,130
Investments in real estate - local	23,536,594	10,787,013
	142,327,581	95,965,143
Add: Change in fair value (unrealized gain)	20,012,226	24,211,032
	162,339,807	120,176,175

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

20. Available for sale investments, net

This item consists of the following as of December 31:

	Quoted YR 000s	2013 Unquoted YR 000s	Total YR 000s
Available for sale investments - foreign	4,022,317	27,067,280	31,089,597
Available for sale investments - local	-	3,246,159	3,246,159
	4,022,317	30,313,439	34,335,756
Add: Change in fair value (Unrealized gain)	(2,178,835)	(473,940)	(2,652,775)
Less: Provision for impairment of investment	-	(3,209,917)	(3,209,917)
	1,843,482	26,629,582	28,473,064

	Quoted YR 000s	2012 Unquoted YR 000s	Total YR 000s
Available for sale investments - foreign	4,715,798	30,051,507	34,767,305
Available for sale investments - local	-	3,405,968	3,405,968
	4,715,798	33,457,475	38,173,273
Add: Change in fair value (Unrealized gain)	-	(522,315)	(522,315)
	4,715,798	32,935,160	37,650,958

Masharka investment provision has been transferred to provision for impairment of investment because of the nature of these investments.

21. Held-for-trading investments

This item consists of the following as of December 31:

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 Restated YR 000s
Opening balance at January 1,	2,887,175	868,377
Additional during the year	-	2,018,798
Disposals during the year	(2,681,401)	-
	205,774	2,887,175

22. Investments in Islamic Sukuk

This item consists of the following as of December 31:

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Quoted	10,516,423	26,795,000
Unquoted	64,800,000	-
	75,316,423	26,795,000
Add: Deferred revenues	1,290,172	3,596,308
	76,606,595	30,391,308

23. Qard hasan, net

This item consists of the following as of December 31:

	Note	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Total financing		2,233	3,800
Less: Qard hasan provision	24	(22)	(38)
		2,211	3,762

24. Qard hasan provision

This item consists of the following as of December 31:

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Opening balance at January 1,	38	-
Created during the year	-	38
Using during the year	-	-
Provision reversed	(16)	-
	22	38

25. Debit balances and other assets, net

This item consists of the following as of December 31:

	Note	Dec. 31, 2013 YR 000s	Dec. 31, 2012 Restated YR 000s
Accrued revenue from foreign Mudaraba		6,105,072	-
Project under process		1,016,583	855,122
Prepaid expenses		344,726	421,046
Stationery inventory		101,606	88,695
Assets which titles have been transferred to the Bank		75,562	2,654,685
Advances to employees		133,962	51,299
Equipment in stores		47,009	100,524
Other debit balances		1,773,075	1,645,732
		9,597,595	5,817,103
Less: Provision for doubtful debts	26	(360,653)	(90,877)
		9,236,942	5,726,226

Accrued revenue represent an amount of to YR 572,800,000 against the Bank share from profits of Shamayel Mudaraba, and an amount of YR 377,072,415 against profits from other companies.

26. Provision for doubtful debts

This item consists of the following as of December 31:

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Opening balance at January 1,	90,877	-
Created during the year	269,776	90,877
	360,653	90,877

27. Property and equipment, net

This item consists of the following as of December 31:

	Lands YR 000s	Buildings YR 000s	Machinery & Equipment YR 000s	Motor Vehicles YR 000s	Furniture & Fixtures YR 000s	Computer Equipment YR 000s	Total YR 000s
Gross carrying amount							
January 1, 2013	87,274	2,513,878	1,125,868	372,401	341,707	1,839,606	6,280,734
Additions	1,141,869	90,369	281,779	1,116,795	29,185	1,131,326	3,791,323
Disposals	-	(163,091)	(96,677)	(980,651)	(4,861)	(35,255)	(1,280,535)
Foreign currencies exchange differences	-	1	704	9,000	1	442	10,148
Balance as of December 31, 2013	1,229,143	2,441,157	1,311,674	517,545	366,032	2,936,119	8,801,670
Accumulated depreciation							
January 1, 2013	-	260,925	587,214	280,047	244,386	1,013,489	2,386,061
Depreciation	-	62,717	99,533	529,849	16,582	323,091	1,031,772
Disposals	-	(11,519)	(59,959)	(505,138)	(3,384)	(24,573)	(604,573)
Foreign currencies exchange differences	-	-	28	-	-	-	28
Balance as of December 31, 2013	-	312,123	626,816	304,758	257,584	1,312,007	2,813,288
Carrying amount as of December 31, 2013	1,229,143	2,129,034	684,858	212,787	108,448	1,624,112	5,988,382
Gross carrying amount							
January 1, 2012	1,152,576	2,475,782	1,003,417	380,514	325,243	1,470,954	6,808,486
Additions	13,173	38,160	337,181	56,621	25,527	370,701	841,363
Disposals	(1,078,475)	-	(172,162)	(64,851)	(9,088)	(54,028)	(1,378,604)
Foreign currencies exchange differences	-	(64)	(42,568)	117	25	51,979	9,489
Balance as of December 31, 2012	87,274	2,513,878	1,125,868	372,401	341,707	1,839,606	6,280,734
Accumulated depreciation							
January 1, 2012	-	198,952	568,898	239,920	227,915	770,456	2,006,141
Depreciation	-	61,973	95,680	83,962	18,813	238,730	499,158
Disposals	-	-	(44,474)	(43,913)	(3,118)	(38,110)	(129,615)
Foreign currencies exchange differences	-	-	(32,890)	78	776	42,413	10,377
Balance as of December 31, 2012	-	260,925	587,214	280,047	244,386	1,013,489	2,386,061
Carrying amount as of December 31, 2012	87,274	2,252,953	538,654	92,354	97,321	826,117	3,894,673

28. Current accounts and other deposits

This item consists of the following as of December 31:

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Current accounts	164,494,144	127,456,656
Cash deposits	5,667,195	3,865,434
Other deposits	1,571,268	1,949,918
	171,732,607	133,272,008

29. Due to banks and financial institutions

This item consists of the following as of December 31:

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Foreign banks - current accounts	8,639,077	26,329
Local banks	149,545	145,905
	8,788,622	172,234

30. Credit balances and other liabilities

This item consists of the following as of December 31:

	Note	Dec. 31, 2013 YR 000s	Dec. 31, 2012 Restated YR 000s
Accrued expenses		720,191	116,034
Accrued taxes		66,252	8,028
Prohibited revenues by Islamic Sharia'a	31	2,631	16,272
Creditors and other credit balances		6,464,156	4,937,965
		7,253,230	5,078,299

31. Prohibited revenues by islamic sharia'a

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

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Opening balance at January 1,	16,272	9,500
Net revenues during the year	-	6,772
Total of revenue	16,272	16,272
Less: Donations	(13,641)	-
Balance at December 31,	2,631	16,272

32. Other provisions

This item consists of the following as of December 31:

	Balance at Jan. 1 YR 000s	Provided during the year YR 000s	Used during the year YR 000s	Provision reversed YR 000s	Balance at Dec. 31, 2013 YR 000s
Provision for contingent liabilities	495,210	118,832	-	-	614,042
Provision for end of service benefits	232,910	13,714	-	-	246,624
Provision for contingent claims	657,503	91,227	(651,883)	-	96,847
	1,385,623	223,773	(651,883)	-	957,513

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

33. Unrestricted investments and saving accounts' holders

This item consists of the following as of December 31:

	Note	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Saving accounts - local currency		52,757,448	43,424,389
Saving accounts - foreign currency		45,297,902	35,379,302
		98,055,350	78,803,691
Deposits for more than one year - local currency		102,772,783	91,515,812
Deposits for more than one year - foreign currency		64,384,946	57,697,435
		167,157,729	149,213,247
Return for unrestricted investments and saving accounts' holders	34	14,565,013	14,160,821
		279,778,092	242,177,759

34. Return of unrestricted investments and saving accounts' holders

The investment return allocation between shareholders and customers is based on the percentage of their participation weighted by numbers. This calculation is proposed by the budget committee which calculates the investments in local and foreign currencies and their related numbers and participation ratios. The average return ratios were as follows:

	2013		2012	
	Local Currency %	Foreign Currency %	Local Currency %	Foreign Currency %
Investment deposits	9.07	3.05	11.05	3.11
Saving accounts	5.33	1.72	6.5	1.75

35. Share capital

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

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Paid up capital	20,000,000	20,000,000
	20,000,000	20,000,000

36. Statutory reserve

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

This item consists of the following as of December 31:

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Balance at January 1,	16,292,817	16,292,817
Created during the year	206,445	-
Used during the year	-	-
Balance at December 31,	16,499,262	16,292,817

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

37. General reserve

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

38. Other reserves

This item consists of the following as of December 31:

	Balance at Jan. 1 YR 000s	Provided during the year YR 000s	Used during the year YR 000s	Balance at Dec. 31, 2013 YR 000s
Available for sale investments	(522,315)	43,653	(2,174,113)	(2,652,775)
Investments in real estate	24,211,031	3,485,173	(7,683,978)	20,012,226
Re-evaluation differences of investments in subsidiaries	34,383	31,434	-	65,817
	23,723,099	3,560,260	(9,858,091)	17,425,268

	Balance at Jan. 1 YR 000s	Provided during the year YR 000s	Used during the year YR 000s	Balance at Dec. 31, 2012 Restated YR 000s
Available for sale investments	(853,466)	331,151	-	(522,315)
Investments in real estate	26,233,034	3,585,050	(5,607,053)	24,211,031
Re-evaluation differences of investments in subsidiaries	374,243	34,383	(374,243)	34,383
	25,753,811	3,950,584	(5,981,296)	23,723,099

39. Contingent liabilities and commitments, net

This item consists of the following as of December 31:

	Gross Commitments YR 000s	2013 Margin Held YR 000s	Net Commitment YR 000s	Gross Commitment YR 000s	2012 Margin Held YR 000s	Net Commitment YR 000s
Letters of credit	16,529,354	(1,550,920)	14,978,434	17,146,979	(2,769,029)	14,377,950
Letters of guarantee	34,709,671	(4,056,697)	30,652,974	24,342,930	(114,995)	24,227,935
L/Cs for Murabaha contracts	15,782,470	(9,600)	15,772,870	10,950,207	(35,050)	10,915,157
	67,021,495	(5,617,217)	61,404,278	52,440,116	(2,919,074)	49,521,042

40. Revenue of Murabaha and Istisna'a financing transactions

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

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Revenue of Murabaha contracts financing transactions	5,364,610	4,679,748
Revenue of Istisna'a contracts financing transactions	1,206,765	1,621,501
Revenue of Ijarah contracts financing transactions	18,794	-
	6,590,169	6,301,249

41. Revenue from other joint investments

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

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 Restated YR 000s
Profits from investments in Mudaraba contracts	14,337,019	5,900,176
Profits from investment in Islamic sukuk- CBY	1,924,551	3,602,293
Profits from real estate investments	1,631,733	6,584,546
Profits from available-for-sale investments	272,070	625,656
Profits from investments in Musharaka contracts	23,279	161,760
Profits from other investments	3,625,953	2,497,025
	21,814,605	19,371,456

42. Commissions, revenue and bank service charges

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

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Commissions on letters of credits	1,368,619	886,725
Commissions on letters of guarantee	366,316	330,347
Commissions on cash transaction	208,033	161,644
Commissions on cheques collection	42,170	37,815
Commissions on foreign investments	29,874	35,423
Other fees and commissions	288,183	342,777
	2,303,195	1,794,731

43. Foreign currencies exchange gain (loss)

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

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 Restated YR 000s
Gain (loss) on dealing in foreign currencies	749,304	(1,526,302)
Gain (loss) from re-evaluation of balances in foreign currencies	145,274	(1,003,958)
	894,578	(2,530,260)

44. Other operating income

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

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 Restated YR 000s
Provisions reversed	526,018	1,717,994
Net, revenue of Commercial Tadhamon Center	-	1,031
Others	20,850	8,075
	546,868	1,727,100

45. Provisions

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

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 Restated YR 000s
Mudaraba contracts financing transactions provision	3,331,268	-
Provision for impairment of investments	3,209,917	-
Murabaha contracts investments provision	734,761	10,877
Provision for debit balances	361,004	-
Provision for contingent liabilities	118,832	657,503
Ijarah provision	9,637	678
Musharaka contracts investments provision	-	922,108
Others	-	4,740
	7,765,419	1,595,906

46. General and administration expenses and depreciation

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

	Dec. 31, 2013	Dec. 31, 2012
	YR 000s	Restated YR 000s
Salaries, wages and related costs	2,910,704	2,942,350
Deprecation	740,175	606,016
Zakat	639,642	65,876
Transportation	431,284	186,750
Fees of Deposit Insurance Corporation	353,857	253,011
Rent	300,115	292,466
Repairs and maintenance	212,534	221,605
Advertisements	187,682	195,964
Cleaning and security expenses	137,788	127,889
Insurance	105,203	76,639
Subscriptions	93,714	57,446
Utilities	86,310	91,146
Stationery	69,990	66,218
Tax and government fees	60,700	253,011
Studies and scholarships	49,649	38,325
Professional fees	39,870	26,122
Communications	36,082	41,791
Donations	30,538	23,689
Information technology expenses	25,960	3,825
Vehicles expenses	24,266	22,814
Hospitality expenses	3,354	6,261
Other expenses	931,818	590,958
	7,471,235	6,190,172

47. Earning (loss) per share

	Dec. 31, 2013	Dec. 31, 2012
		Restated
Net profit for the year (YR000s)	1,377,976	2,450,546
Weighted average of number of shares	20,000	20,000
Earning (loss) per share	69	122

48. Maturities of financial assets and liabilities

	Due within 3 months YR Million	Due from 3 to 6 months YR Million	2013 Due from 6 months to one year YR Million	Due over one year YR Million	Total YR Million
Assets					
Cash on hand and reserve balances with CBY	59,242	-	-	-	59,242
Due from banks and financial institutions	62,317	-	-	-	62,317
Murabaha contracts financing transactions, net	45,055	15,018	14,228	4,742	79,043
Istisna'a contracts financing transactions, net	3,129	1,070	1,153	2,881	8,233
Investments in Mudaraba contracts, net	1,206	-	4,005	24,159	29,370
Investments in Musharaka contracts, net	-	-	21	1,181	1,202
Ijarah Muntahia Bittamleek, net	7	7	14	2,886	2,914
Investments in real estate, net	-	-	32,882	129,458	162,340
Available for sale investments, net	-	-	-	28,473	28,473
Held-for-trading investments	-	-	206	-	206
Investments in Islamic Sukuk	76,607	-	-	-	76,607
Liabilities					
Current accounts and other deposits	171,733	-	-	-	171,733
Unrestricted investments and saving accounts holders equity	38,245	31,652	61,939	147,942	279,778
Due to bank and financial institutions	8,789	-	-	-	8,789
	218,767	31,652	61,939	147,942	460,300
	28,796	(15,557)	(9,430)	45,838	49,647

	Due within 3 months YR Million	Due from 3 to 6 months YR Million	2012 Due from 6 months to one year YR Million	Due over one year YR Million	Total YR Million
Assets					
Cash on hand and reserve balances with CBY	11,676	15,269	12,373	8,845	48,163
Due from banks and financial institutions	25,370	28,816	31,552	20,286	106,024
Murabaha contracts financing transactions, net	21,741	14,270	4,073	3,557	43,641
Istisna'a contracts financing transactions, net	600	4,301	2,773	1,073	8,747
Investments in Mudaraba contracts, net	4,946	2,048	5,352	16,234	28,580
Investments in Musharaka contracts, net	-	266	1,084	2,973	4,323
Ijarah Muntahia Bittamleek, net	11	16	62	2,929	3,018
Investments in real estate, net	120,176	-	-	-	120,176
Available for sale investments, net	-	-	-	37,651	37,651
Held-for-trading investments	-	-	2,887	-	2,887
Investments in Islamic Sukuk	-	-	30,391	-	30,391
Liabilities					
Current accounts and other deposits	40,521	48,968	24,423	19,360	133,272
Unrestricted investments and saving accounts' holders	47,661	61,315	75,937	57,265	242,178
Due to bank and financial institutions	172	-	-	-	172
	88,354	110,283	100,360	76,625	375,622
	96,166	(45,297)	(9,813)	16,923	57,979

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

	2013						
	Financial YR Million	Manufacturing YR Million	Trade YR Million	Constructions YR Million	Services YR Million	Individual & Others YR million	Total YR Million
Assets							
Cash on hand and reserve balances with CBY	59,242	-	-	-	-	-	59,242
Due from banks and financial institutions	62,317	-	-	-	-	-	62,317
Murabaha contracts financing transactions, net	-	19,944	27,582	811	2,015	28,691	79,043
Istisna'a contracts financing transactions, net	-	5,165	837	-	101	2,130	8,233
Investments in Mudaraba contracts, net	-	-	4,043	25,262	13	51	29,369
Investments in Musharaka contracts, net	-	-	1,178	24	-	-	1,202
Ijarah Muntahia Bittamleek, net	-	-	806	-	797	1,310	2,913
Investments in real estate, net	63,694	-	-	98,646	-	-	162,340
Available for sale investments, net	28,473	-	-	-	-	-	28,473
Held for trading investments	206	-	-	-	-	-	206
Investments in Islamic Sukuk	76,607	-	-	-	-	-	76,607
Liabilities							
Current accounts and other deposits	-	48,085	51,520	-	13,739	58,389	171,733
Unrestricted investments and saving accounts holders' equity	-	8,393	16,787	-	55,956	198,642	279,778
Due to banks and financial institutions	8,789	-	-	-	-	-	8,789
Contingent liabilities							
Letters of guarantee	-	-	21,457	9,196	-	-	30,653
Letters of credit	-	-	14,978	-	-	-	14,978
L/Cs for Murabaha contracts	-	-	15,773	-	-	-	15,773

	2012						
	Financial YR Million	Manufacturing YR Million	Trade YR Million	Constructions YR Million	Services YR Million	Individual & Others YR million	Total YR Million
Assets							
Cash on hand and reserve balances with CBY	48,163	-	-	-	-	-	48,163
Due from banks and financial institutions	106,024	-	-	-	-	-	106,024
Murabaha financing transactions, net	-	10,213	25,112	4,876	2,791	649	43,641
Istisna'a financing transactions, net	-	8,136	-	-	-	611	8,747
Investments in Mudaraba contracts, net	14,483	6,291	7,434	-	20	352	28,580
Investments in Musharaka contracts, net	1,721	-	2,545	-	-	57	4,323
Ijarah Muntahia Bittamleek, net	-	-	3,018	-	-	-	3,018
Investments in real estate, net	105,827	-	-	10,744	-	3,605	120,176
Available for sale investments, net	37,651	-	-	-	-	-	37,651
Held for trading investments	2,887	-	-	-	-	-	2,887
Investments in Islamic Sukuk	30,391	-	-	-	-	-	30,391
Liabilities							
Current accounts and other deposits	-	36,479	41,289	-	8,718	46,786	133,272
Unrestricted investments and saving accounts holders' equity	-	6,257	12,520	-	36,400	187,001	242,178
Due to banks and financial institutions	172	-	-	-	-	-	172
Contingent liabilities							
Letters of guarantee	-	-	16,545	7,683	-	-	24,228
Letters of credit	-	-	7,850	6,528	-	-	14,378
L/Cs for Murabaha contracts	-	-	10,915	-	-	-	10,915

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

	2013					
	Republic of Yemen YR Million	United States Of America YR Million	Europe YR Million	Asia YR Million	Africa YR Million	Total YR million
Assets						
Cash in hand and reserve balances with CBY	59,242	-	-	-	-	59,242
Due from banks and financial institutions	35,671	3,197	15,455	7,194	799	62,316
Murabaha contracts financing transactions, net	79,043	-	-	-	-	79,043
Istisna'a contracts financing transactions, net	8,233	-	-	-	-	8,233
Investments in Mudaraba contracts, net	20,265	-	294	8,811	-	29,370
Investments in Musharaka contracts, net	1,202	-	-	-	-	1,202
Ijarah Muntahia Bittamleek, net	2,913	-	-	-	-	2,913
Investments in real estate, net	22,008	688	4,083	132,657	2,903	162,339
Available for sale investments, net	470	301	1,505	15,363	10,834	28,473
Held-for-trading investments	-	-	-	206	-	206
Investments in Islamic Sukuk	64,800	-	3,233	8,574	-	76,607
Liabilities						
Current accounts and other deposits	171,733	-	-	-	-	171,733
Unrestricted investments and saving account holders' equity	279,778	-	-	-	-	279,778
Due to bank and financial institutions	-	-	7,295	1,494	-	8,789
Contingent liabilities						
Letters of guarantee	1,533	-	1,226	27,894	-	30,653
Letters of credit	-	449	5,692	8,687	150	14,978
L/Cs for Murabaha contracts	-	1,735	2,839	11,041	158	15,773

	2012					
	Republic of Yemen YR Million	United States Of America YR Million	Europe YR Million	Asia YR Million	Africa YR Million	Total YR million
Assets						
Cash in hand and reserve balances with CBY	48,163	-	-	-	-	48,163
Due from banks and financial institutions	29,492	4,178	7,476	62,577	2,301	106,024
Murabaha financing transactions, net	43,641	-	-	-	-	43,641
Istisna'a financing transactions, net	8,747	-	-	-	-	8,747
Investments in Mudaraba contracts, net	5,258	-	557	19,637	3,128	28,580
Investments in Musharaka contracts, net	830	178	276	2,953	86	4,323
Ijarah Muntahia Bittamleek, net	157	-	-	2,861	-	3,018
Investments in real estate, net	22,150	-	184	92,725	5,117	120,176
Available for sale investments, net	-	-	-	28,730	8,921	37,651
Held-for-trading investments	-	-	-	2,887	-	2,887
Investments in Islamic Sukuk	30,391	-	-	-	-	30,391
Liabilities						
Current accounts and other deposits	133,272	-	-	-	-	133,272
Unrestricted investments and saving account holders' equity	242,178	-	-	-	-	242,178
Due to bank and financial institutions	-	-	-	172	-	172
Contingent liabilities						
Letters of guarantee	-	4,957	7,087	11,057	1,127	24,228
Letters of credit	-	416	3,864	9,539	559	14,378
L/Cs for Murabaha contracts	8,196	-	430	1,681	608	10,915

51. Significant foreign currency positions

To comply with CBY Circular No. (6) of 1998, the Bank establishes limits for positions in Individual foreign currencies as well as an aggregate limitation for all currencies. These limits are 15% and 25% of capital and reserves respectively.

The following schedule reflects the Bank's significant foreign currencies positions at the statement of financial position date:

	2013		2012	
	Surplus (Deficit) YR 000s	% of Capital & reserves	Surplus (Deficit) YR 000s	% of Capital & reserves
US Dollar	27,725	76%	14,831	41%
Euro	2,343	7%	(271)	(1%)
Saudi Rial	(3,565)	(10%)	10,120	28%
Sterling Pound	5,356	15%	3,839	11%
Dirham - UAE	34,841	95%	33,481	92%
Dinar - Bahrain	6,681	18%	6,681	18%
Yen - Japan	175	0.48%	46	0.10%
Dinar - Jordan	310	1%	309	1%
Dinar - Kuwait	1,555	4%	1,640	4%
Frank - Swiss	383	1%	132	0.4%
Pound - Sudan	-	-	390	1%
Total	75,804	207%	71,198	196%

52. Transactions with related parties

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

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

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

	Related Parties	Top Managements	2013 YR Million	2012 YR Million
Direct and indirect financing	67,026	64	67,090	40,634
Current and saving accounts	9,434	5	9,439	9,041
Investments in associates	-	-	-	-
Revenue and commission received	4,877	4	4,881	3,192
Compensations	-	32	32	26

53. Salaries and tax status

- The Bank has submitted the tax declaration for the year 2008 and paid the amount due within the legal deadline and no assessment has been received from Tax Authority for the year 2008.
- The Bank has submitted the tax declaration for the year 2009 and no assessment has been received from Tax Authority.
- The Bank has submitted the tax declaration for the year 2010 and no assessment has been received from Tax Authority.
- The Bank has submitted the tax declaration for the year 2011 and no assessment has been received from Tax Authority.
- The Bank has submitted the tax declaration for the year 2012 and no assessment has been received from Tax Authority.

54. 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.

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

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

55. Zakat

The Bank submits its Zakat declaration annually and remits the amount due based on the declaration.

The Bank has paid the Zakat up to the end of 2012, according to the Zakat declaration. No assessment notification was issued by the Zakat Department.

56. Approval of consolidated financial statements

The consolidated financial statements for the year ended December 31, 2013 (including comparatives) were approved by the board of directors on June 22, 2014.

57. Restated comparative figures

Tadhamon Capital Company - Bahrain one of subsidiary of Tadhamon International Islamic Bank restated part of its financial statements as December 31, 2012 and based on the information available as at December 31, 2012, the Management of Tadhamon Capital Company – Bahrain had recorded the investment in TC-AC Affordable Homes Limited as investment carried at fair value through equity, however, in 2013 after the receipt of management accounts of TC-AC Affordable Homes Limited, the Company started consolidating this investment with its consolidated financial statements. This has resulted in the restatement of comparative figures of the Bank as follows:

	2012 Restated YR000s	2012 YR000s	Variances YR000s
<u>Consolidated Statement of Financial Position</u>			
Due from banks and financial institutions	106,023,815	108,884,944	(2,861,129)
Ijarah Muntahia Bittamleek, net	3,018,248	157,119	2,861,129
Held-for-trading investments	2,887,175	2,931,386	(44,211)
Debit balances and other assets, net	5,726,226	4,945,593	780,633
Credit balances and other liabilities	5,078,299	4,343,954	734,345
Others reserves	23,723,099	23,688,716	34,383
Accumulated loss	(49,397)	-	(49,397)
<u>Consolidated Statement of Comprehensive Income</u>			
Revenue from other joint investments	19,371,456	20,658,695	(1,287,239)
Foreign currencies exchange gain (loss)	(2,530,260)	(2,530,135)	(125)
Other operating income	1,727,100	439,860	1,287,240
Provisions	(1,595,906)	(1,110,437)	(485,469)
General and administration expenses and depreciation	(6,190,172)	(6,626,364)	436,192

The Separate Financial Statements For Tadhamon International Islamic Bank

1) Separate Statement of Financial Position

December 31, 2013

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Assets		
Cash on hand and reserve balances with Central Bank of Yemen	59,241,593	48,162,987
Due from bank and financial institutions	58,157,300	101,800,443
Murabaha contracts financing transactions, net	79,043,083	43,640,755
Istisna'a contracts financing transactions, net	8,232,999	8,747,275
Investments in Mudaraba contracts, net	29,369,639	28,579,889
Investments in Musharaka contracts, net	1,201,954	13,986,170
Ijarah Muntahia Bittamleek, net	52,101	157,119
Investments in real estate, net	171,053,051	120,176,175
Available for sale investments, net	26,722,120	37,610,957
Investments in Islamic Sukuk	76,606,596	30,391,308
Qard Hasan, net	2,210	3,762
Restricted investments	-	7,622,837
Debit balances and other assets, net	7,978,397	4,320,229
Property and equipment, net	5,942,680	3,876,532
Total assets	523,603,723	449,076,438
Liabilities, investments accounts holders and shareholders' equity		
Liabilities		
Current accounts and other deposits	171,732,606	133,483,771
Due to banks and financial institutions	8,788,622	172,233
Credit balances and other liabilities	7,040,658	3,991,437
Other provisions	957,513	1,385,623
Total liabilities	188,519,399	139,033,064
Investments accounts holders' equity		
Unrestricted investments and saving accounts' holders	279,778,092	242,177,758
Restricted investments accounts	-	7,622,837
Total investments accounts holders' equity	279,778,092	249,800,595
Shareholders' equity		
Share capital	20,000,000	20,000,000
Statutory reserve	16,499,262	16,292,817
General reserve	261,246	261,246
Other reserves	17,425,268	23,688,716
Retained earnings	1,120,456	-
Total equity attributable to equity holders of parent	55,306,232	60,242,779
Total liabilities, investments accounts' holders and shareholders' equity	523,603,723	449,076,438
Contingent liabilities and commitments, net	61,404,278	49,521,042

2) Separate Statement of Comprehensive Income

For the year ended December 31, 2013

	Dec. 31, 2013 YR 000s	Dec. 31, 2012 YR 000s
Revenue of Murabaha and Istisna'a contracts financing transactions	6,590,169	6,301,249
Revenue from other joint investments	21,814,605	20,658,695
	28,404,774	26,959,944
Less:		
Return on unrestricted investments and saving accounts holders' equity	(14,565,013)	(14,160,821)
	13,839,761	12,799,123
Commissions and bank service charges revenue	2,303,195	1,794,731
Less: Commission expenses on bank service charges	(84,623)	(50,890)
Foreign currencies exchange gain (loss)	894,578	(2,530,135)
Impairment of available for sale investments	(911,867)	(2,456,715)
Gain on sale of property and equipment	620,038	240,774
Other operating income	546,868	439,860
Operating profit	17,207,950	10,236,748
Less:		
Provisions	(7,765,419)	(1,110,437)
Amortization for external investments in real estate	(593,320)	-
General and administration expenses and depreciation	(7,471,235)	(6,626,364)
Net profit for the year	1,377,976	2,499,947