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CASH FLOW STATEMENT FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2006

	Note	2006 YR'000's	2005 YR'000's		2006 YR'000's	2005 YR'000's
Cash flows from operating activities:				Cash flows from financing activities:		
Net profit before tax		2,741,148	1,273,782	Increase in paid-up capital	5,351,255	-
Adjustments to reconcile net profit to cash flows from operating activities				Increase in share premium	2,935,654	-
Depreciation of fixed assets	25	129,439	91,611	Increase in unrestricted investment and saving accounts	33,433,779	11,166,390
Depreciation of assets acquired for leasing		177,168	182,592	Net increase in current accounts and other deposits	8,138,460	12,370,638
Provisions	38	525,288	364,822	(Decrease) in due to banks and financial institutions	(2,116,308)	(175,833)
Provision for end of service compensation		16,873	16,319	Paid dividends to depositors	(5,554,783)	(3,629,323)
Income tax paid		(370,286)	(218,926)	Paid dividends to shareholders and Board of Directors	(379,500)	(154,500)
Gains on sale of fixed assets		(128,089)	(92)	Net cash flows provided by financing activities (3)	41,808,557	19,577,372
Revaluation gains of investments		(1,008)	-	Net change in cash and cash equivalent (1+2+3)	(2,967,884)	6,520,022
Provisions used		(132,686)	(121,954)	Cash and cash equivalent at the beginning of the year	25,097,186	18,577,164
Return of unrestricted investment and saving accounts		8,103,307	5,554,783	Cash and cash equivalent at the end of the year	22,129,302	25,097,186
Operating profit before changes in assets & liabilities related to operating activities		11,061,154	7,142,937	Cash and cash equivalent consist of:		
(Increase) in reserve balances with CBY		(1,313,425)	(10,048,652)	Cash on hand and balances at CBY, other than reserve	7,450,354	11,361,333
(Increase) in debit balances and other assets		(539,941)	(555,455)	Due from banks and financial institutions	14,678,948	13,735,853
Increase in credit balances and other liabilities		161,628	663,713		22,129,302	25,097,186
Net cash flows provided by (used in) operating activities (1)		9,369,416	(2,797,457)	(The accompanying notes from 1 to 46 form part of these financial statements)		
Cash flows from investing activities:				Auditor's report attached.		
(Increase) decrease in financing Murabaha transactions		(18,532,945)	7,925,259			
(Increase) in financing Istisna'a transactions		(246,057)	(1,856,824)			
(Increase) in investments in Mudaraba contracts		(5,614,864)	(9,770,550)			
(Increase) in investments in Musharaka contracts		(197,452)	(551,247)			
(Increase) in Investment property		(2,457,915)	(1,503,918)			
(Increase) decrease in usufruct		(7,580,480)	666,250			
(Increase) in available for sale investments		(7,827,620)	(2,298,135)			
(Increase) in investments in subsidiaries and associates		(2,554,140)	(113,814)			
(Increase) in deposits with financial institutions		(8,965,771)	(2,399,209)			
Net payments to purchase property and equipment		(168,613)	(357,705)			
Net cash flows (used in) investing activities (2)		(54,145,857)	(10,259,893)			



STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2006

2006	Paid up Capital YR'000's	Statutory Reserve YR'000's	General Reserve YR'000's	Retained Earnings YR'000's	Total YR'000's
Balance at beginning of the year	3,750,000	717,352	1,445,318	1,223	5,913,893
Net profit for the year	-	-	-	1,938,985	1,938,985
Increase in paid up capital	5,351,255	-	-	-	5,351,255
Share premium	-	2,935,654	-	-	2,935,654
Transfer to statutory reserve	-	290,848	-	(290,848)	-
Transfer to general reserve (proposed)	-	-	843,815	(843,815)	-
Dividends to shareholders (proposed)	-	-	-	(793,753)	(793,753)
BOD remuneration (proposed)	-	-	-	(11,000)	(11,000)
Balance at end of the year	9,101,255	3,943,854	2,289,133	792	15,335,034
2005	Paid up Capital YR'000's	Statutory Reserve YR'000's	General Reserve YR'000's	Retained Earnings YR'000's	Total YR'000's
Balance at beginning of the year	3,000,000	581,828	1,806,344	1,725	5,389,897
Net profit for the year	-	-	-	903,496	903,496
Transfer from general reserve to capital	750,000	-	(750,000)	-	-
Transfer to statutory reserve	-	135,524	-	(135,524)	-
Transfer to general reserve	-	-	388,974	(388,974)	-
Dividends to shareholders	-	-	-	(375,000)	(375,000)
BOD remuneration	-	-	-	(4,500)	(4,500)
Balance at end of the year	3,750,000	717,352	1,445,318	1,223	5,913,893

(The accompanying notes from 1 to 46 form part of these financial statements)

Auditor's report attached.

NOTES TO FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2006

1. BACKGROUND

Tadhamon International Islamic Bank - a Yemeni joint-stock company - was established under the name of Yemen Islamic Bank for Investment and Development in accordance with the Ministerial Decree No. (147) for the year 1995. The name of the Bank has been changed to Tadhamon Islamic Bank according to the Ministerial Decree No. (169) for the year 1996. The shareholders extra ordinary meeting decided on March 20, 2002 to change the name of the Bank to Tadhamon International Islamic Bank. The objectives of the Bank are to finance, invest, and offer banking services in accordance with Article No. (3) of the Bank's Articles of Association which states that the bank performs its activities in conformity with the precepts of Islamic Shari'a. The bank started its activities on July 20th, 1996, through the main branch in Sana'a and expanded to (17) branches all over the Republic of Yemen.

2. PREPARATION BASIS OF THE FINANCIAL STATEMENTS

The financial statements are prepared under the historical cost principle in accordance with Accounting Standards for Islamic Financial Institutions, local prevailing laws and regulations and in the light of rules and instructions issued by Central Bank of Yemen (CBY).

3. SIGNIFICANT ACCOUNTING POLICIES

a. Translation of foreign currencies

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

b. Revenue recognition

1. Murabaha and Istisna'a

* Profits on Murabaha and Istisna'a contracts are recorded on the accrual basis as all



profits at the completion of Murabaha contract are recorded as deferred revenues

and taken to the income statement, depending on finance percentage, using the straight line method over the term of contract.

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

2. Mudaraba and Musharaka

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

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

3. Ijarah and Ijarah Muntahia Bittamleek

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

4. Available for sale investments

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

5. Investments in subsidiaries and associates

Revenues of investments in subsidiaries and associates are recorded when the financial statements of these companies are approved (see Note No. 3/i).

c. Valuation of Murabaha and Istisna'a financing transactions

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

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

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

d. Valuation of investments in Mudaraba and Musharaka contracts

- * Investments in Mudaraba and Musharaka contracts are recorded on the basis of the amount paid to the capital of Mudaraba or Musharaka. Investments in in-kind Mudaraba and Musharaka contracts are recorded based on the agreed-upon value between the bank and the customer or partner. Accordingly, any differences between this value and the book value are recorded as profits or losses in the income statement. In order to comply with the requirements of CBY, provision is provided for specific Mudaraba and Musharaka contracts which realized losses, in addition to a percentage for general risk calculated on the total of other Mudaraba and Musharaka contracts after deducting balances secured by deposits and banks' guarantees issued by worthy banks.

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

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

e. Ijarah Muntahia Bittamleek

- * Assets acquired for Ijarah and Ijarah Muntahia Bittamleek are recorded at historical cost less accumulated depreciation and impairment losses. They are depreciated, except for land, over the Ijarah term.
- * At the end of the Ijarah term, title of leased assets passes to the lessee, provided that all Ijarah installments are settled by the lessee.

**f. Valuation of investment property**

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

g. Usufruct

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

h. Valuation of available for sale investments

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

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

i. Valuation of investments in subsidiaries and associates

Investments in subsidiaries which the Bank has control over or associates which the Bank has significant influence over are recorded at acquisition cost. At the financial statements date, these investments are adjusted according to the Bank's share in the equity of subsidiaries and associates based on the approved financial statements of these companies. This adjustment is taken to the income statement. In case the financial statements of these companies can not be obtained, they are recorded at cost.

j. Valuation of assets for which titles have been transferred to the bank as a repayment of debts

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

k. Valuation of restricted investments

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

l. Contingent liabilities and commitments

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

m. Cash and cash equivalent

For the purpose of preparing the cash flow statement, cash and cash equivalent consist of cash on hand, cash balances with Central Bank of Yemen, other than reserve



balances, and demand deposits with other banks.

n. Property, equipment and depreciation

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

Estimated Useful Lives

Buildings	40 years
Machinery & equipment	10 years
Motor vehicles	5 years
Furniture and fixtures	5 / 40 years
Computer equipment	5 years

o. Impairment of assets

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

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

p. End of service bonus

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

q. Taxation

* Corporate tax is calculated in accordance with the prevailing laws and regulations in the Republic of Yemen.

* Provision for tax liabilities is made after studying the tax assessments. Due to the characteristics of the tax accounting in Yemen, provision for tax liabilities relating to deferred taxes is formed. In case of deferred tax assets, these assets are not certain to be realized in the near future. Accordingly, such assets are not recorded.

r. Statement of changes in restricted investments

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

**s. Prohibited revenues**

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

4. SUPERVISION OF CENTRAL BANK OF YEMEN

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

5. SHARIA' BOARD

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

6. ZAKAT

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

7. FINANCIAL INSTRUMENTS AND MANAGING THEIR RELATED RISKS**7.1 Financial instruments**

- a. The bank's financial instruments are represented in financial assets and liabilities. Financial assets include cash balances, current accounts, deposits with banks and financing of Murabaha, Istisna', Mudaraba and Musharaka transactions and related debts, investment property, usufruct, Ijarah Muntahia Bittamleek, available for sale investments and investments in subsidiaries and associates. Financial liabilities include current and saving accounts, due to banks and investment accounts. Also, financial instruments include rights and obligations stated in contingent liabilities and commitments.

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

b. Fair value of financial instruments

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

c. Forward contracts

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.



7.2 Managing related risks

a. Return rate risk

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

b. Credit risk

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

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



Note No. (43) to the financial statements indicates the distribution of assets, liabilities and contingent liabilities and commitments at balance sheet date.

c. 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 balanced foreign currencies positions in compliance with the Central Bank of Yemen instructions stated in CBY circular No. 6 of 1998 which specifies that individual foreign currency positions should not exceed 15% of the bank's capital and reserves, and that the aggregate open position for all foreign currencies should not exceed 25% of the bank's capital and reserves. Note (44) to the financial statement indicates the significant foreign currencies' positions as at balance sheet date.



8. ASH ON HAND AND RESERVE BALANCES WITH CENTRAL BANK

	2006 YR'000's	2005 YR'000's
Cash on hand and ATM machines– local currency	1,150,392	1,589,277
Cash on hand and ATM machines – foreign currency	<u>3,050,481</u>	<u>4,618,696</u>
	<u>4,200,873</u>	<u>6,207,973</u>
Reserve balances at CBY – local currency	5,934,273	4,570,780
Reserve balances at CBY – foreign currency	<u>18,802,073</u>	<u>18,852,141</u>
	<u>24,736,346</u>	<u>23,422,921</u>
	<u>28,937,219</u>	<u>29,630,894</u>

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

9. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2006 YR'000's	2005 YR'000's
a. Central Bank of Yemen		
Current accounts – local currency	2,542,908	4,758,899
Current accounts – foreign currency	<u>706,573</u>	<u>394,461</u>
	<u>3,249,481</u>	<u>5,153,360</u>
b. Foreign banks		
Current accounts	14,678,948	13,735,853
Deposits with Islamic financial institutions	<u>11,368,167</u>	<u>2,402,396</u>
	<u>26,047,115</u>	<u>16,138,249</u>
	<u>29,296,596</u>	<u>21,291,609</u>

10. FINANCING MURABAHA TRANSACTIONS (NET)

	Note	2006 YR'000's	2005 YR'000's
Murabaha – local		59,270,119	43,613,978
Murabaha – foreign		<u>5,911,923</u>	<u>2,181,049</u>
		65,182,042	45,795,027
Less: Murabaha transactions provision	11	(1,641,263)	(1,162,452)
Less: Deferred revenues		<u>(2,453,572)</u>	<u>(1,599,503)</u>
		<u>61,087,207</u>	<u>43,033,072</u>

Non-performing financing Murabaha transactions amounted to YR 2,433,802 Thousand at 31/12/2006 (YR 1,785,065 Thousand at 31/12/2005).

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

	2006			2005		
	Specific YR'000's	General YR'000's	Total YR'000's	Specific YR'000's	General YR'000's	Total YR'000's
Balance at beginning of the year	738,348	424,104	1,162,452	111,935	518,461	630,396
Provided during the year (income statement)	118,795	178,843	297,638	-	-	-
Provided during the year from credit balances	30,803	-	30,803	519,169	-	519,169
Transfer from general to specific	-	-	-	94,357	(94,357)	-
Transfer from Mudaraba provision	150,370	-	150,370	-	-	-
Transfer from debit balances provision	-	-	-	2,092	-	2,092
Transfer from other provisions	-	-	-	10,795	-	10,795
Balance at end of the year	<u>1,038,316</u>	<u>602,947</u>	<u>1,641,263</u>	<u>738,348</u>	<u>424,104</u>	<u>1,162,452</u>



12. FINANCING ISTISNA'A TRANSACTIONS (NET)

	Note	2006 YR'000's	2005 YR'000's
Istisna'a		4,378,955	4,117,685
Less: Istisna'a transactions provision	13	(42,643)	(40,182)
Less: Deferred revenues		(114,698)	(99,485)
		<u>4,221,614</u>	<u>3,978,018</u>

13. ISTISNA'A TRANSACTIONS PROVISION (PERFORMING)

	2006			2005		
	Specific YR'000's	General YR'000's	Total YR'000's	Specific YR'000's	General YR'000's	Total YR'000's
Balance at beginning of the year	-	40,182	40,182	-	21,614	21,614
Provided during the year	-	2,461	2,461	-	18,568	18,568
Balance at end of the year	-	<u>42,643</u>	<u>42,643</u>	-	<u>40,182</u>	<u>40,182</u>

14. INVESTMENTS IN MUDARABA CONTRACTS (NET)

	Note	2006 YR'000's	2005 YR'000's
Investments in Mudaraba contracts - foreign		23,372,832	17,760,217
Investments in Mudaraba contracts - local		<u>20,000</u>	<u>44,262</u>
		23,392,832	17,804,479
Less: Mudaraba contracts provision	15	(233,928)	(384,298)
Less: Deferred revenues		-	(26,511)
		<u>23,158,904</u>	<u>17,393,670</u>

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

	2006			2005		
	Specific YR'000's	General YR'000's	Total YR'000's	Specific YR'000's	General YR'000's	Total YR'000's
Balance at beginning of the year	219,519	164,779	384,298	-	55,240	55,240
Provided during the year from income statement	-	-	-	87,941	109,539	197,480
Provided during the year from credit balances	(69,149)	-	-	131,578	-	131,578
Transfer to general provision	(150,370)	69,149	-	-	-	-
Transfer to Murabaha provision	-	-	(150,370)	-	-	-
Balance at end of the year	-	<u>233,928</u>	<u>233,928</u>	<u>219,519</u>	<u>164,779</u>	<u>384,298</u>

16. INVESTMENTS IN MUSHARAKA CONTRACTS (NET)

	Note	2006 YR'000's	2005 YR'000's
Investments in Musharka contracts - foreign		1,562,103	1,347,430
Investments in Musharka contracts - local		<u>2,400</u>	<u>19,621</u>
		1,564,503	1,367,051
Less: Musharaka investments provision	17	(18,021)	(30,719)
		<u>1,546,482</u>	<u>1,336,332</u>

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

	2006			2005		
	Specific YR'000's	General YR'000's	Total YR'000's	Specific YR'000's	General YR'000's	Total YR'000's
Balance at beginning of the year	17,221	13,498	30,719	-	8,158	8,158
Provided during the year from credit balances	2,400	2,123	4,523	17,221	5,340	22,561
Provision used	(17,221)	-	(17,221)	-	-	-
Balance at end of the year	<u>2,400</u>	<u>15,621</u>	<u>18,021</u>	<u>17,221</u>	<u>13,498</u>	<u>30,719</u>



THE BANK'S MISSION

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

THE BANK'S OBJECTIVES

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



Non-performing investments in Musharka contracts amounted to YR 2,400 Thousand at 31/12/2006 (YR 17,221 Thousand at 31/12/2005).

18. IJARAH MUNTAHIA BITTAMLEEK

	2006 YR'000's	2005 YR'000's
Total cost	669,024	1,669,024
Less: accumulated depreciation	(418,038)	(240,870)
Net book value	<u>250,986</u>	<u>428,154</u>

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

19. INVESTMENT PROPERTY

	2006 YR'000's	2005 YR'000's
Investment property - local	3,832,487	1,979,451
Investment property - foreign	763,321	158,442
	<u>4,595,808</u>	<u>2,137,893</u>

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

20. USUFRUCT

	2006 YR'000's	2005 YR'000's
Algawar Tower - KSA	5,954,625	2,926,125
Al Marwa Tower - KSA	<u>4,551,980</u>	<u>—</u>
	<u>10,506,605</u>	<u>2,926,125</u>

* The Algawar Tower (Makaa El Mokarama, KSA) balance represents the amount paid for the usufruct of the entire second tower for 23 Hijri years starting from 1/3/1426h (10/4/2005) including the construction period which expected to end on 30/10/1428h (November 2007).

* The Al Marwa Tower (KSA) balance represents the amount paid for the usufruct of the twenty forth floor for 23 Hijri years starting from 1/11/1428h (November 2007).

21. AVAILABLE FOR SALE INVESTMENTS

	2006 YR'000's	2005 YR'000's
Available for sale investments	<u>13,582,390</u>	<u>5,754,770</u>

All available for sale investments are foreign investments.

22. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	2006 YR'000's	Percentage of investment %	2005 YR'000's	Percentage of investment %
Yemen Islamic Insurance Co.	17,920	10%	16,912	20%
Motive Force Co. Ltd.	247,626	14.4%	196,528	20%
National Company for Cement	951,576	6.25%	951,576	6.25%
Al-Widad Trading Co. (underincorporation)	49,068	95%	49,018	95%
Islamic Co. for payment (under incorporation)	20,588	51%	-	-
Tameer Yemen Company (under incorporation)	2,481,375	25%	-	-
Yemeni Co. for financial services (under incorporation)	<u>59,553</u>	-	<u>58,524</u>	-
	<u>3,827,706</u>		<u>1,272,558</u>	

**23. DEBIT BALANCES & OTHER ASSETS (NET)**

	Note	2006 YR'000's	2005 YR'000's
Overdraft		161,860	360,615
Unpaid LCs		79,612	-
Advances to employees		41,092	38,583
Qard Hasan to employees		6,081	3,126
Prepaid expenses		18,567	7,688
Debtors of Ijarah Muntahia Bittamleek		366,308	515,579
Projects under processing (buildings)		886,466	412,253
Accrued income		1,886	1,411
Stationary inventory		23,842	16,985
Property and equipment in stores		40,586	23,983
Assets which titles have been transferred to the Bank's ownership	3j	625,000	-
Others		<u>305,715</u>	<u>636,851</u>
		2,557,015	2,017,074
Less: Provision for doubtful debts	24	(<u>217,493</u>)	(<u>30,507</u>)
		<u>2,339,522</u>	<u>1,986,567</u>

24. PROVISION FOR DOUBTFUL DEBTS

	2006 YR'000's	2005 YR'000's
Balance at beginning of the year	30,507	32,599
Provided during the year from credit balances	186,986	-
Transferred to Murabaha transactions provision	-	(<u>2,092</u>)
Balance at the end of the year	<u>217,493</u>	<u>30,507</u>

25. PROPERTY AND EQUIPMENT (NET)

	2006		2005
	Cost YR'000's	Accumulated depreciation YR'000's	Net YR'000's
Land	1,785,756	-	1,785,756
Buildings	100,111	2,320	97,791
Equipment and machinery	307,996	160,356	147,640
Vehicles	176,903	74,659	102,244
Furniture and fixtures	284,846	130,692	154,154
Computers	<u>521,384</u>	<u>218,311</u>	<u>303,073</u>
	<u>3,176,996</u>	<u>586,338</u>	<u>2,590,658</u>
			<u>2,423,395</u>

Depreciation amounted to YR 129,439 Thousand for the year 2006 (YR 91,611 Thousand for the year 2005), note 39.

26. CURRENT ACCOUNTS AND OTHER DEPOSITS

	2006 YR'000's	2005 YR'000's
Current accounts	37,143,418	33,593,239
Cash deposits	8,501,380	4,135,226
Other deposits	<u>572,337</u>	<u>350,210</u>
	<u>46,217,135</u>	<u>38,078,675</u>

27. CREDIT BALANCES & OTHER LIABILITIES

	2006 YR'000's	2005 YR'000's
Income tax for the year	802,163	370,286
Accrued expenses	50,199	31,517
Creditors and sundry credit balances	191,108	248,650
L/C's received in advance	1,285,039	1,449,122
Installments of Ijarah Muntahia Bittamleek	<u>275,115</u>	<u>495,570</u>
	<u>2,603,624</u>	<u>2,595,145</u>

**28. PROHIBITED REVENUES BY ISLAMIC SHARIA'**

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

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

	2006 YR'000's	2005 YR'000's
Balance at the beginning of the year	-	110,412
Revenues during the year	731,636	640,437
	<u>731,636</u>	<u>750,849</u>
Expenses	(146,609)	(58,531)
Donations	(585,027)	(692,318)
Transfer to provisions	(731,636)	(750,849)
Balance at the end of the year	<u>-</u>	<u>-</u>

30. UNRESTRICTED INVESTMENT AND SAVING ACCOUNTS' HOLDERS

	2006 YR'000's	2005 YR'000's
Saving accounts – local currency	18,595,941	14,081,065
Saving accounts – foreign currency	<u>20,872,235</u>	<u>14,754,738</u>
	<u>39,468,176</u>	<u>28,835,803</u>
Deposits for more than one year – local currency	26,308,916	20,298,710
Deposits for more than one year – foreign currency	<u>45,931,140</u>	<u>29,139,940</u>
	<u>72,240,056</u>	<u>49,438,650</u>
	<u>8,103,307</u>	<u>5,554,783</u>
Return for unrestricted investment and saving accounts	<u>119,811,539</u>	<u>83,829,236</u>

29. OTHER PROVISIONS

	2006				2005			
	Provision for contingent liabilities YR'000's	Provisions for end of service compensation YR'000's	Provisions for contingent claims YR'000's	Total YR'000's	Provision for contingent liabilities YR'000's	Provisions for end of service compensation YR'000's	Provisions for contingent claims YR'000's	Total YR'000's
Balance at beginning of the year	379,634	68,339	188,000	635,973	390,429	58,632	136,000	585,061
Provided during the year	-	64,373	180,150	244,523	-	59,368	124,293	183,661
Provided during the year from credit balances	360,254	-	-	360,254	-	-	-	-
Used during the year	-	(47,315)	(68,150)	(115,465)	-	(49,661)	(72,293)	(121,954)
Transfer to Murabaha provision	-	-	-	-	(10,795)	-	-	(10,795)
	<u>739,888</u>	<u>85,397</u>	<u>300,000</u>	<u>1,125,285</u>	<u>379,634</u>	<u>68,339</u>	<u>188,000</u>	<u>635,973</u>
Balance at end of the year								



31. ALLOCATION OF INVESTMENT AND SAVING ACCOUNTS RETURN

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

	2006		2005	
	Local Currency %	Foreign Currency %	Local Currency %	Local Currency %
Ongoing deposits	15.12	5.60	13.63	4.50
Saving accounts	11.56	4.20	11.22	3.60

32. CAPITAL

The authorized and issued capital is YR 10 Billion represented in 10 Million shares of nominal value of YR 1,000 each, according to the extraordinary general assembly meeting decision on March 29, 2006. Procedures are currently taken for registering this increase in capital in the commercial register of the Bank.

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

	YR'000's
Capital before the increase	3,750,000
Capital increase	<u>6,250,000</u>
	10,000,000
Unpaid amounts	(898,745)
Paid up capital in 31/12/2006	<u>9,101,255</u>

33. STATUTORY RESERVE

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

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

	2006 YR'000's	2005 YR'000's
Balance at the beginning of the year	717,352	581,828
Transfer from net profit	290,848	135,524
Share premium	<u>2,935,654</u>	-
Balance at the end of the year	<u>3,943,854</u>	<u>717,352</u>

34. REVENUES OF MURABAHA AND ISTISNA'A FINANCING TRANSACTIONS

	2006 YR'000's	2005 YR'000's
Revenues of local Murabaha transactions	4,153,376	3,381,151
Revenues of foreign Murahaba transactions	356,086	142,265
Revenues of Istisna'a transactions	<u>374,327</u>	<u>345,019</u>
	<u>4,883,789</u>	<u>3,868,435</u>

35. REVENUES OF OTHER JOINT INVESTMENTS

	2006 YR'000's	2005 YR'000's
Profits of investments in Mudaraba contracts	1,043,253	1,179,841
Profits of investments in Musharaka contracts	96,859	58,826
Profits from other investments	<u>4,329,350</u>	<u>2,843,868</u>
	<u>5,469,462</u>	<u>4,082,535</u>

**36. COMMISSIONS AND FEES INCOME ON BANKING**

	2006 YR'000's	2005 YR'000's
Commissions on documentary credits	638,241	400,988
Commissions on letters of guarantee	251,167	158,939
Commissions on transfer of funds	98,674	89,055
Checks collection commissions	20,433	20,653
Banking services charges	236,154	112,390
Other fees and commissions	103,408	50,570
	<u>1,348,077</u>	<u>832,595</u>

37. GAINS (LOSSES) OF FOREIGN CURRENCY TRANSACTIONS

	Note	2006 YR'000's	2005 YR'000's
Gains from revaluation of balances in foreign currencies	3/a	1,017,749	413,988
Gains (losses) of dealing in foreign currencies		<u>3,157</u>	<u>(824,991)</u>
		<u>1,020,906</u>	<u>(411,003)</u>

38. PROVISIONS PROVIDED DURING THE YEAR

	Note	2006 YR'000's	2005 YR'000's
Murabaha provision	11	297,638	-
Mudarba provision	15	-	197,480
Contingent claims provision	29	180,150	124,293
End of service compensation provision		<u>47,500</u>	<u>43,049</u>
		<u>525,288</u>	<u>364,822</u>

39. GENERAL AND ADMINISTRATIVE EXPENSES AND DEPRECIATION

	Note	2006 YR'000's	2005 YR'000's
Wages and salaries		659,789	516,537
Depreciation	25	129,439	91,611
Stationary		34,226	27,202
Communications		30,533	25,175
Water and electricity		28,320	21,897
Rent		97,667	73,260
Repair and maintenance		25,840	18,622
Car expenses		7,925	5,063
Advertisement		42,718	17,913
Transportation		55,096	30,414
Insurance		14,038	12,676
Subscriptions and studies		56,052	52,384
Entertainment expenses		5,790	2,598
Professional fee		34,183	37,158
Cleaning expenses		29,108	23,513
Taxes and duties		8,976	7,745
Donations		472	7,568
Others		<u>28,741</u>	<u>10,352</u>
		<u>1,288,913</u>	<u>981,688</u>

40. CONTINGENT LIABILITIES AND COMMITMENTS

	2006 YR'000's	2005 YR'000's
L/C's for Murabaha contracts	16,404,104	11,404,666
Letters of credit	31,653,250	12,995,590
Letters of guarantee	34,432,783	17,698,341
	82,490,137	42,098,597
Less: Margins held	<u>(8,501,380)</u>	<u>(4,135,226)</u>
	<u>73,988,757</u>	<u>37,963,371</u>



41. EARNING PER SHARE

	2006	2005
Net profit for the year (YR'000's)	1,938,985	903,496
Board of Directors' remuneration (proposed / approved) (YR'000's)	(11,000)	(4,500)
Shareholders' share in profit (YR'000's)	1,927,985	898,996
Weighted average of number of shares (in thousands)	6,426	3,750
Earning per share	300 YR	240 YR

42. MATURITIES OF ASSETS AND LIABILITIES

	Due within 3 months YRMillions	Due within 6 months YRMillions	Due within 9 months YRMillions	Due within one year YRMillions	Due within more than one year YRMillions	Total YRMillions
a. Assets						
Cash on hand & reserve balances with CBY	12,633	2,842	3,543	3,474	6,445	28,937
Due from banks	24,684	1,072	1,994	1,547	-	29,297
Financing Murabaha transactions	27,515	15,138	11,457	2,965	8,107	65,182
Financing Ijtisna' transactions	1,965	960	1,398	56	-	4,379
Investments in Mudaraba contracts	-	-	1,715	10,551	11,127	23,393
Investments in Musharaka contracts	-	-	-	403	1,162	1,565
Ijarah Muntahia Bittamleek	-	-	-	-	251	251
Investment property	-	-	-	602	3,994	4,596
Usufruct	-	-	-	-	10,507	10,507
Available for sale investments	-	-	-	-	13,582	13,582
Investments in subsidiaries and associates	-	-	-	-	3,827	3,827
Overdraft	162	-	-	-	-	162
	66,959	20,012	20,107	19,598	59,002	185,678
b. Liabilities						
Current accounts and other deposits	37,515	2,964	2,123	1,776	1,839	46,217
Unrestricted investment & saving accounts	19,079	16,111	21,656	21,546	41,420	119,812
Due to banks	44	-	-	-	-	44
	56,638	19,075	23,779	23,322	43,259	166,073



43. DISTRIBUTION OF ASSETS, LIABILITIES, AND CONTINGENT LIABILITIES AND COMMITMENTS

	Financial YR'Million	Manu- facturing YR'Million	Trade YR'Million	Construc- tion YR'Million	Services YR'Million	Individual & Others YR'Million	Total YR'Millions
a. Assets							
Financing Murabaha	5,912	18,519	20,218	7,179	11,511	1,843	65,182
Financing Ijara'a	-	4,305	-	-	-	74	4,379
Investments in Mudaraba	23,393	-	-	-	-	-	23,393
Investments in Musharaka	1,565	-	-	-	-	-	1,565
Ijarah Murabahah Bithamleek	251	-	-	-	-	-	251
Investment property	4,596	-	-	-	-	-	4,596
Usufruct	10,507	-	-	-	-	-	10,507
Available for sale investments	13,582	-	-	-	-	-	13,582
Investments in subsidiaries and associates	-	952	2,592	-	283	-	3,827
b. Liabilities							
Current accounts and other deposits	-	14,114	13,414	-	2,597	16,092	46,217
Unrestricted investment accounts	794	-	10,889	-	23,712	84,417	119,812
c. Contingent liabilities							
LGs	8,271	14,556	4,822	2,679	4,105	-	34,433
LCs	19,004	12,649	-	-	-	-	31,653
LCs for Murabaha contracts	9,884	6,520	-	-	-	-	16,404

44. SIGNIFICANT FOREIGN CURRENCIES' POSITIONS

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



	2006		2005	
	Surplus (deficit) YR 000's	% of capital & reserves	Surplus (deficit) YR 000's	% of capital & reserves
US Dollar	(328,776)	(2%)	1,808	-
Saudi Rial	647,314	4%	243,477	4%
Euro	258,487	2%	39	-
Sterling Pound	302,872	2%	-	-
UAE Dirham	1,027,696	7%	-	-
Japanese Yen	(44,385)	-	-	-
	<u>1,863,208</u>	<u>13%</u>	<u>245,324</u>	<u>4%</u>

45. TAXATION

- * There is a legal dispute with the Tax Authority which has not been settled yet regarding the Bank's profits during the exemption period, ended on July 20, 2003, being subject to tax. The Bank's management believes that there is no liability on the Bank due to the strong position of the Bank and his tax exemption according to the prevailing laws.
- * Income tax, salary tax and zakat are paid and cleared until the year 2005.

46. TRANSACTIONS WITH RELATED PARTIES

The bank's activity nature requires to deal with some shareholders, members of the board of directors and companies owned by them, such as financing Murabaha transactions and others. The following are the balances of these transactions on the balance sheet date:

	2006 YR'000's	2005 YR'000's
Direct and indirect financing	13,808	12,487
Current and saving accounts	7,468	7,665

**Sana'a Branch
(Head Quarter)**

Address: Al-Zuhairi St., Al-Saeed Trading Bldg.
Tel. +967 1 203207
Fax +967 1 203271

Dhamar Branch

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

ADEN BRANCH

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

Mukalla Branch

Address: Labour Area, Near Hadramout
Chamber of Commerce
Tel. +967 5 304741
Fax +967 5 304740

Al- Hasaba Branch

Address: Sana'a, Al - Hasaba - Al Kaida St.
Tel. +967 1 229034
Fax +967 1 229031

TAIZ BRANCH

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

**Sheikh Othman
Branch**

Address: Aden, Sheikh Othman
Tel. +967 2 380781
Fax +967 2 380784

Bowalsh Office

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

Hayel Branch

Address: Sana'a, Al - Rehab St.
Tel. +967 1 535833
Fax +967 1 535834

**Hauodh Al-Ashraf
Branch**

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

Crater Branch

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

Tareem Office

Address: Hadramout Tareem
Tel. +967 5 413777
Fax +967 5 413775

HADAH BRANCH

Address: Hadah St., Sana'a
Tel. +967 1 264063
Fax +967 1 264062

Hodeidah Branch

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

Sayoon Branch

Address: Main Road, Near Zubairi
Tel. +967 5 405604
Fax +967 5 405241

Shibar Branch

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

Taiz St. Branch

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

IBB BRANCH

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

Under Establishment :

- Al -Qaten Office , Hadhramout
- Al- Ghaydhah Branch - Al Maharah
- Branch Amran
- Ataq Branch - Shabwa

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E-mail: info@tiib.com

tiib@y.net.ye



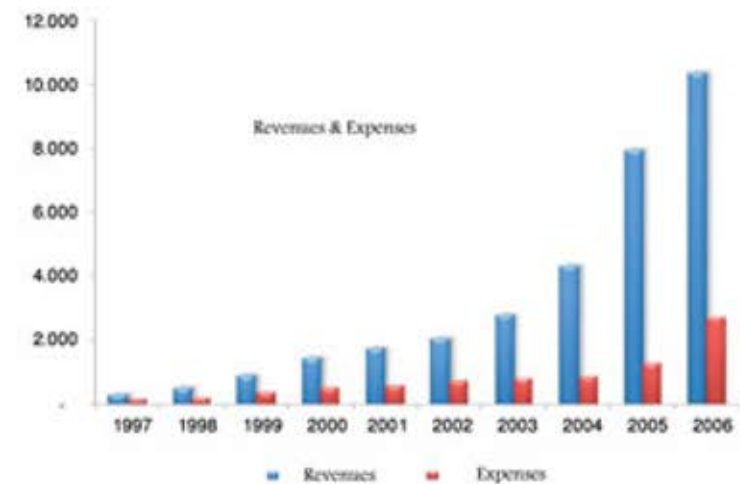
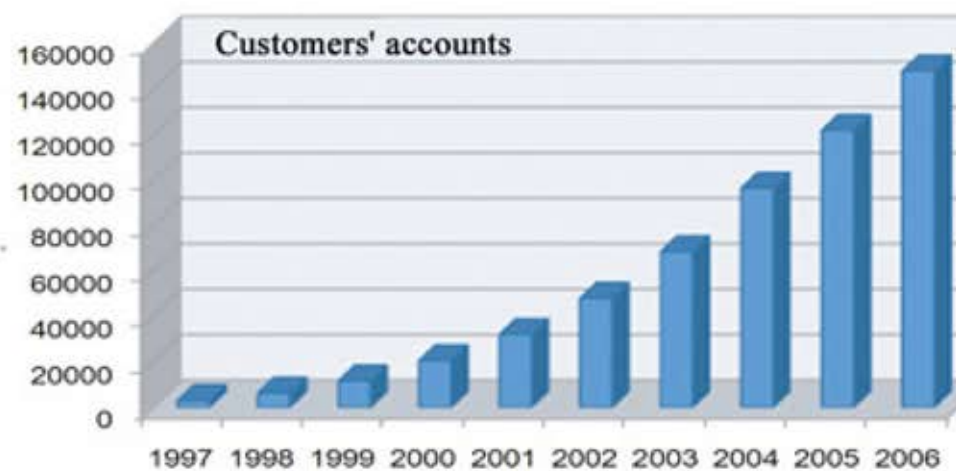
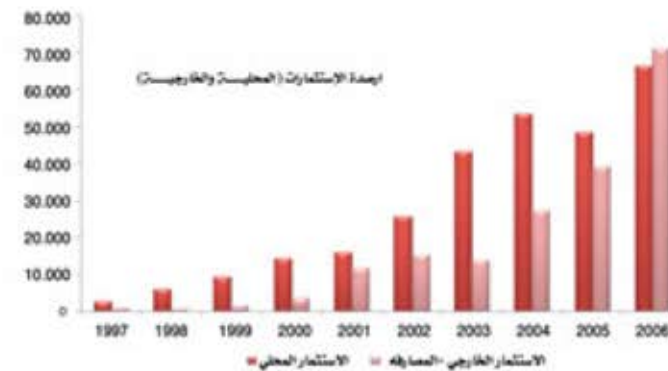
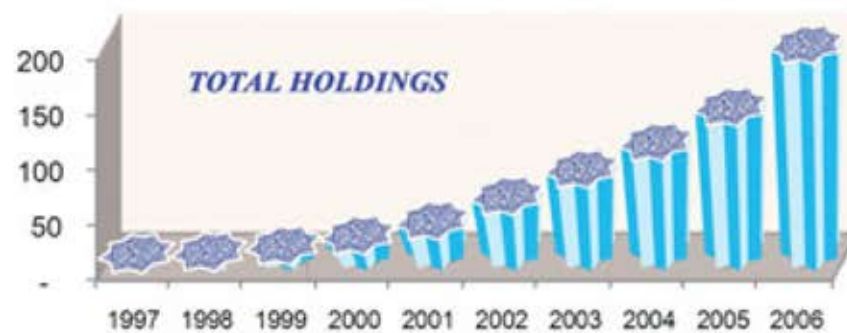
THE BOARD OF DIRECTORS MEMBERS

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



THE MANAGEMENT BOARD MEMBERS

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





Fatwa And Shariaa Board's Report

All praise and thanks are due to Allah, and peace and prayers be upon the honest prophet and on his fellows and followers.

To the Shareholders,
To the Depositors,

The Sharia Supervisory Board's Report on the Bank's Business and Activities During the year 2006

The Sharia Supervisory Board is, in accordance with the Articles of Association of the Bank related the formation of Sharia Supervisory Board and its duties and tasks in ensuring that the Bank's staff are complying with the controls prescribed in Sharia, and in combination with submitting the financial statements and balance sheet for the year ended on 31/12/2006 that show the results of the Bank's activities during the last year, submitting its report that includes the following:



The Sharia Supervisory Board held eight meetings during the last year to address the following issues:

- 1- Following up the Bank's business and activities and ensuring the soundness and correctness of the transactions contracts the Bank is executing, besides, verifying the soundness of the already executed transactions in that if they are free of Riba (usury) whether in depositing or in crediting.
- 2- Answering questions and queries submitted to the Board from the bank's management.
- 3- Making remarks about some transactions that has been executed with some errors. The Board also made recommendations for correcting the same, and for putting aside the profits of such transactions that cannot be corrected.
- 4- The Board continues to emphasize on its recommendation to the Bank's management on the necessity of seriously pursuing efforts to utilize the other Islamic investment methods and not to be restricted to Murabaha.

The Board concluded the following:

- 1- The banking business and investment activities executed by the bank are almost all conforming to the Islamic Sharia rules, except some errors that happened in the execution of some transactions, and that attention has been drawn to them



- earlier, Besides, the coverage of the assets of the bank is done by conventional insurance company.
- 2- Profits distribution and loss bearing are in accordance with the basis that has been approved by the rules of Islamic Sharia.
 - 3- The amounts that have been realized through resources that do not comply with Sharia rules, have been put aside to be disbursed in the way approved by the Board.

Submitting its report, the Sharia Supervisory Board is thanking the Bank management for their co-operation with the Board. The Board is also praising their adhearance to the Sharia and their wish to keep away from suspected dealings.

We beg Allah the Almighty to grant us all success in meeting his orders .



INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF TADHAMON INTERNATIONAL ISLAMIC BANK SANA'A, REPUBLIC OF YEMEN

Report on the Financial Statements

We have audited the accompanying financial statements of Tadhamon International Islamic Bank, which comprise the balance sheet as at December 31, 2006, the income statement, cash flow statement and changes in equity statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.



Management's Responsibility for the Financial Statements

Management is responsible for the Bank's undertaking to operate in accordance with Islamic Sharia'. Management is also responsible for the preparation and fair presentation of these financial statements in accordance with the accounting standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and operating in accordance with Islamic Sharia'. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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



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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Tadhamon International Islamic Bank as at December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with the accounting standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and with the applicable local laws and regulations.

Report on Other Legal and Regulatory Requirements

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



BALANCE SHEET AS AT DECEMBER 31, 2006

	Note	2006 YR'000's	2005 YR'000's
Assets			
Cash on hand & reserve balances with Central Bank	(8)	28,937,219	29,630,894
Due from banks and financial institutions	(9)	29,296,596	21,291,609
Financing Murabaha transactions (net)	(3/c, 10)	61,087,207	43,033,072
Financing Istisna'a transactions (net)	(3/c, 12)	4,221,614	3,978,018
Investments in Mudaraba contracts (net)	(3/d, 14)	23,158,904	17,393,670
Investments in Musharaka contracts (net)	(3/d, 16)	1,546,482	1,336,332
Ijarah Muntahia Bittamleek	(3/e, 18)	250,986	428,154
Investment property	(3/f, 19)	4,595,808	2,137,893
Usufruct	(3/g, 20)	10,506,605	2,926,125
Available for sale investments	(3/h, 21)	13,582,390	5,754,770
Investments in subsidiaries and associates	(3/i, 22)	3,827,706	1,272,558
Debit balances & other assets (net)	(23)	2,339,522	1,986,567
Property and equipment (net)	(3/n, 25)	2,590,658	2,423,395
Total assets		185,941,697	133,593,057
Liabilities, investment accounts and shareholders' equity			
Liabilities			
Current accounts and other deposits	(26)	46,217,135	38,078,675
Due to banks and financial institutions		44,327	2,160,635
Credit balances & other liabilities	(27)	2,603,624	2,595,145
Other provisions	(29)	1,125,285	635,973
Dividends payable		804,753	379,500
Total liabilities		50,795,124	43,849,928
Unrestricted investment and saving accounts' holders	(30)	119,811,539	83,829,236
Shareholders' equity			
Capital	(32)	9,101,255	3,750,000
Statutory reserve	(33)	3,943,854	717,352
General reserve		2,289,133	1,445,318
Retained earnings		792	1,223
Total shareholders' equity		15,335,034	5,913,893
Total liabilities, investment accounts and shareholders' equity		185,941,697	133,593,057
Contingent liabilities and commitments	(31/40)	73,988,757	37,963,371

(The accompanying notes from 1 to 46 form part of these financial statements)

INCOME STATEMENT FOR THE FINANCIAL YEAR
ENDED DECEMBER 31, 2006

	Note	2006 YR'000's	2005 YR'000's
Revenues of Murabaha and Istisna'a financing	34	4,883,789	3,868,435
Revenues of other joint investments	35	5,469,462	4,082,535
		10,353,251	7,950,970
Less:			
Return on unrestricted investment and saving accounts	-	(8,103,307)	(5,554,783)
		2,249,944	2,396,187
Commissions and fees income on banking services	36	1,348,077	832,595
Gains (losses) of foreign currency transactions	37	1,020,906	(411,003)
Other operating income		134,809	6,619
Operating profit		4,753,736	2,824,398
Less:			
Provisions	38	(525,288)	(364,822)
Commissions and fees expenses on banking services		(21,219)	(21,514)
General and administrative expenses and depreciation	39	(1,288,913)	(981,688)
Depreciation of assets acquired for leasing		(177,168)	(182,592)
Net profit before tax		2,741,148	1,273,782
Income tax for the year		(802,163)	(370,286)
Net profit for the year		1,938,985	903,496
Earning per share	41	300	240

(The accompanying notes from 1 to 46 form part of these financial statements)

Auditor's report attached.