

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

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
AND INDEPENDENT AUDITOR'S REPORT**

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

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
AND INDEPENDENT AUDITOR'S REPORT**

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**INDEPEDENT AUDITOR'S REPORT**

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

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Tadhamon International Islamic Bank (Yemeni Joint Stock Company) (the Bank), and its subsidiaries (together referred to as the "Group") which comprise the consolidated statement of financial position as at December 31, 2015, the consolidated income statement, consolidated statement of changes in equity, consolidated statement of cash flows, consolidated statement of sources and uses of Qard Hasan Fund and consolidated statement of changes in restricted investment accounts for the year then ended, and a summary of significant accounting policies and other explanatory information. The preparation of these consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a rules, principles and instructions issued by Central Bank of Yemen are the responsibility of the management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2015, and of its consolidated results of operations, its consolidated cash flows, its consolidated changes in equity, its consolidated sources and uses of Qard Hasan Fund and its consolidated changes in restricted investment accounts for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI, the Shari'a rules and principles as determined by the Shari'a supervisory board and instructions issued by Central Bank of Yemen.

**Emphasis of Matter**

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

## **English Translation of the Original Arabic Text**

### **Other Matter**

The consolidated financial statements of the Group for the year ended December 31, 2014 were audited by another auditor, who expressed an unmodified opinion on those consolidated statements on August 25, 2015.

### **Report on Other Legal and Regulatory Requirements**

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

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

**M. Zohdi Mejanni**  
*Associated Accountant*

**Sana'a, October 23, 2016**

**English Translation of the Original Arabic Text**

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT DECEMBER 31, 2015**

		<b>2015</b>	<b>2014</b>
	<b>Note</b>	<b>YR 000s</b>	<b>(Restated) YR 000s</b>
<b>Assets</b>			
Cash on hand and reserve balances with Central Bank of Yemen (CBY)	9	44,901,774	51,483,515
Due from banks and financial institutions	10	108,317,628	52,497,752
Financing Murabaha and Istisna'a transactions (net)	11	35,088,898	76,298,191
Musharaka investment contracts (net)	13	-	268,613
Mudaraba investment contracts (net)	15	31,335,303	42,641,622
Investment in Islamic Sukuk	17	89,309,980	105,318,240
Investment securities	18	35,563,089	23,547,428
Investment in real estate	19	134,448,430	146,335,787
Ijarah Muntahia Bittamleek receivables (net)	20	15,726	2,903,885
Qard Hasan (net)		2,794	4,421
Debit balances and other assets (net)	21	14,660,339	10,425,891
Property and equipment (net)	23	<u>5,388,023</u>	<u>5,821,542</u>
Total assets		<u>499,031,984</u>	<u>517,546,887</u>
<b>Liabilities, investment accounts' holders and equity</b>			
<b>Liabilities</b>			
Due to banks and financial institutions		2,017,420	550,567
Current accounts and other deposits	24	141,602,348	128,995,204
Credit balances and other liabilities	25	5,830,186	6,080,027
Other provisions	27	<u>505,779</u>	<u>786,824</u>
Total liabilities		149,955,733	136,412,622
Equity of unrestricted investment and saving accounts' holders	28	<u>290,020,395</u>	<u>323,522,776</u>
<b>Total liabilities and investment accounts' holders</b>		<u>439,976,128</u>	<u>459,935,398</u>
<b>Equity</b>			
Share capital	30	20,000,000	20,000,000
Statutory reserve	31.a	16,616,321	16,499,262
General reserve	31.b	261,246	261,246
Other reserve	31.c	25,416,372	19,197,837
Accumulated (loss) earnings		<u>( 3,246,035)</u>	<u>101,013</u>
Total equity attributable to shareholders of the Bank		59,047,904	56,059,358
Non - controlling interest		<u>7,952</u>	<u>1,552,131</u>
		<u>59,055,856</u>	<u>57,611,489</u>
Total liabilities, investment accounts' holders and equity		<u>499,031,984</u>	<u>517,546,887</u>
Contingent liabilities and commitments (net)	32	<u>24,278,088</u>	<u>47,172,830</u>

The attached notes on pages 10 to 67 are an integral part of these consolidated financial statements. Independent auditor's report is set out on pages 1 and 2.

**Basheer Sultan Al-Maktari**  
Financial Manager

**Mahmoud Ata Hassan Al-Refae**  
General Manager

**Abdulgabbar Hayel Saeed**  
Chairman

**English Translation of the Original Arabic Text**

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

**CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2015**

		<b>2015</b>	<b>2014</b>
	<b>Note</b>	<b>YR 000s</b>	<b>(Restated) YR 000s</b>
Income from financing Murabaha and Istisna'a transactions	33	4,903,238	8,463,287
Income from other joint investments	34	<u>14,156,249</u>	<u>13,057,148</u>
		19,059,487	21,520,435
Less: Return on unrestricted investments and saving accounts' holders		( <u>12,696,093</u> )	( <u>15,223,657</u> )
Bank's share from the income on Murabaha, Musharaka and joint investments		<u>6,363,394</u>	<u>6,296,778</u>
Fees and commission income	35	1,553,621	1,713,139
Less: Fees and commission expenses		( <u>40,385</u> )	( <u>357,856</u> )
Net fees and commission income		<u>1,513,236</u>	<u>1,355,283</u>
		7,876,630	7,652,061
Gains on foreign currency transactions	36	3,990,774	14,912
Other operating income	37	<u>2,423,873</u>	<u>3,446,072</u>
Total operating income		14,291,277	11,113,045
Less:			
Provisions	38	( 3,832,354 )	( 1,424,975 )
Loss on sale of investments (realized)	39	( 3,811,712 )	( 1,256,063 )
Impairment on investment in real estate	19	( 1,360,329 )	( 594,981 )
Impairment on fair value of investment in real estate (unrealized)	19	( 1,095,242 )	( 453,418 )
Impairment on investment securities	40	( 615,022 )	( 966,606 )
Staff costs	41	( 2,854,887 )	( 2,861,708 )
Depreciation of property and equipment	23	( 726,840 )	( 753,974 )
Other expenses	42	( <u>3,223,772</u> )	( <u>3,968,863</u> )
Net (Loss) for the year before tax		( 3,228,881 )	( 1,167,543 )
Income tax for the year		<u>-</u>	<u>-</u>
Net (Loss) for the year after income tax		( <u>3,228,881</u> )	( <u>1,167,543</u> )
Attributable to:			
Shareholders of the bank		( 3,198,694 )	( 1,019,445 )
Non-controlling interest		( <u>30,187</u> )	( <u>148,098</u> )
Net (Loss) for the year		( <u>3,228,881</u> )	( <u>1,167,543</u> )
(Loss) per share	43	( <u>YR 159.93</u> )	( <u>YR 50.97</u> )

The attached notes on pages 10 to 67 are an integral part of these consolidated financial statements. Independent auditor's report is set out on pages 1 and 2.

**Basheer Sultan Al-Maktari**  
Financial Manager

**Mahmoud Ata Hassan Al-Refae**  
General Manager

**Abdulgabbbar Hayel Saeed**  
Chairman

**English Translation of the Original Arabic Text**

**TADHAMON INTERNATIONAL ISLAMIC BANK**

**(Yemeni Joint Stock Company)**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED DECEMBER 31, 2015**

	<b>Share Capital YR 000s</b>	<b>Statutory Reserve YR 000s</b>	<b>General Reserve YR 000s</b>	<b>Other Reserves YR 000s</b>	<b>Accumulated (loss) earnings YR 000s</b>	<b>Total Equity Attributable of the Bank YR 000s</b>	<b>Non- Controlling Interest YR 000s</b>	<b>Total YR 000s</b>
<b><u>Year 2015</u></b>								
Balance at January 1, 2015 (Restated)	20,000,000	16,499,262	261,246	19,197,837	101,013	56,059,358	1,552,131	57,611,489
Transfer to statutory reserve (impact of consolidation)	-	117,059	-	-	-	117,059	1,182	118,241
Transfer from non-controlling interest	-	-	-	-	( 148,354)	( 148,354)	148,354	-
Paid to non-controlling interest	-	-	-	-	-	-	( 1,664,928)	( 1,664,928)
Changes in foreign currency	-	-	-	( 10,900)	-	( 10,900)	( 30)	( 10,930)
Changes in fair value	-	-	-	6,229,435	-	6,229,435	-	6,229,435
Net (loss) for the year	-	-	-	-	( 3,198,694)	( 3,198,694)	( 30,187)	( 3,228,881)
Paid to share capital	-	-	-	-	-	-	1,430	1,430
Balance at December 31, 2015	<u>20,000,000</u>	<u>16,616,321</u>	<u>261,246</u>	<u>25,416,372</u>	<u>(3,246,035)</u>	<u>59,047,904</u>	<u>7,952</u>	<u>59,055,856</u>
<b><u>Year 2014</u></b>								
Balance at January 1, 2014	20,000,000	16,499,262	261,246	17,425,268	1,120,458	55,306,234	1,356,233	56,662,467
Changes in fair value	-	-	-	1,772,569	-	1,772,569	-	1,772,569
Net (loss) for the year (restated after consolidation)	-	-	-	-	( 1,019,445)	( 1,019,445)	( 148,098)	( 1,167,543)
Non-controlling interest	-	-	-	-	-	-	341,265	341,265
Paid to share capital	-	-	-	-	-	-	2,731	2,731
Balance at December 31, 2014 (Restated)	<u>20,000,000</u>	<u>16,499,262</u>	<u>261,246</u>	<u>19,197,837</u>	<u>101,013</u>	<u>56,059,358</u>	<u>1,552,131</u>	<u>57,611,489</u>

The attached notes on pages 10 to 67 are an integral part of these consolidated financial statements.

Independent auditor's report is set out on pages 1 and 2.

**Basheer Sultan Al-Maktari**  
Financial Manager

**Mahmoud Ata Hassan Al-Refae**  
General Manager

**Abdulgabbbar Hayel Saeed**  
Chairman

**English Translation of the Original Arabic Text**

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

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

		<b>2015</b>	<b>2014</b>
	<b>Note</b>	<b>YR 000s</b>	<b>(Restated) YR 000s</b>
<b><u>Cash flows from operating activities:</u></b>			
Net (Loss) for the year before tax		( 3,228,881)	( 1,167,543)
<b><u>Adjustments for:</u></b>			
Depreciation of property and equipment	23	726,840	753,974
Provisions charged to the consolidated income statement	38	3,832,354	1,424,975
Provisions used during the year		( 2,537,318)	( 634,967)
Provisions reversed	37	( 2,336,691)	( 2,780,507)
Impairment on investment in real estate		2,455,571	1,048,399
Net (profit) on sale of property and equipment		( 7,302)	( 661,443)
Return of unrestricted investment and saving accounts' holders		12,696,093	15,223,657
Impairment on investment securities	40	615,022	( 966,606)
Foreign currencies translation differences		( 10,901)	( 74,815)
		12,204,787	12,165,124
<b><u>Changes in:</u></b>			
Reserve balances with CBY		2,075,959	511,406
Financing Murabaha and Istisna'a transactions		38,374,070	11,877,487
Musharaka investment contracts		1,489,379	158,768
Mudaraba investment contracts		11,522,948	( 11,704,940)
Ijarah Muntahia Bittamleek receivables		2,880,519	19,324
Qard Hasan		1,244	( 2,233)
Debit balance and other assets		( 4,984,835)	( 1,455,749)
Current accounts and other deposits		12,607,144	( 42,737,403)
Credit balances and other liabilities		( 249,841)	2,339,982
Non-controlling interest		( 1,662,346)	343,996
<b>Net cash flows from (used in) operating activities (1)</b>		<b><u>74,259,028</u></b>	<b><u>( 28,484,238)</u></b>
<b><u>Cash flows from investing activities:</u></b>			
Changes in investment in Islamic Sukuk		16,008,260	( 30,001,817)
Changes in investment securities		( 9,713,835)	7,040,858
Changes in real estate investment		15,661,222	14,021,739
Cash payments to acquisition of property and equipment		( 331,575)	( 663,484)
Proceeds from sale of property and equipment		<u>45,556</u>	<u>737,793</u>
<b>Net cash flows from (used in) investing activities (2)</b>		<b><u>21,669,628</u></b>	<b><u>( 8,864,911)</u></b>



**English Translation of the Original Arabic Text**

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

**CONSOLIDATED STATEMENT OF CASH FLOWS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<b><u>Note</u></b>	<b><u>2015</u></b> <b><u>YR 000s</u></b>	<b><u>2014</u></b> <b><u>(Restated)</u></b> <b><u>YR 000s</u></b>
<b><u>Cash flows from financing activities:</u></b>			
Changes in due to banks and financial institutions		1,466,853	( 8,238,055)
Changes in equity of unrestricted investment and saving account's holders		( 46,198,474)	28,521,027
Increase in reserves (impact of consolidation)		<u>117,059</u>	<u>-</u>
<b>Net cash flows (used in) from financing activities (3)</b>		<b><u>( 44,614,562)</u></b>	<b><u>20,282,972</u></b>
Net change in cash and cash equivalents (1+2+3)		51,314,094	( 17,066,177)
Cash and cash equivalents at the beginning of the year		<u>67,127,685</u>	<u>84,193,862</u>
Cash and cash equivalents at the end of the year		<u>118,441,779</u>	<u>67,127,685</u>
<b><u>Cash and cash equivalents at the end of the year consist of:</u></b>			
Cash on hand and reserve balances with CBY	9	44,901,774	51,483,515
Due from banks and financial institutions	10	<u>108,317,628</u>	<u>52,497,752</u>
		153,219,402	103,981,267
Less: Reserve balances with CBY		<u>( 34,777,623)</u>	<u>( 36,853,582)</u>
		<u>118,441,779</u>	<u>67,127,685</u>

The attached notes on pages 10 to 67 are an integral part of these consolidated financial statements. Independent auditor's report is set out on pages 1 and 2.

**Basheer Sultan Al-Maktari**  
**Financial Manager**

**Mahmoud Ata Hassan Al-Refae**  
**General Manager**

**Abdulgabbar Hayel Saeed**  
**Chairman**

**English Translation of the Original Arabic Text**

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

**CONSOLIDATED STATEMENT OF SOURCES AND USES OF QARD HASAN FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Note</u>	<u>2015 YR 000s</u>	<u>2014 YR 000s</u>
<b>Balance at the beginning of the year as represented by:</b>			
Outstanding utilized loans		4,466	2,233
<b>Add: Sources of fund</b>			
Transferred from customers' current accounts		-	2,233
<b>Less: Uses of fund</b>			
Paid to customers' current accounts		( 1,244)	-
Balance at the end of the year		3,222	4,466
Less: Provision for Al-Qard Al-Hasan fund		( 428)	( 45)
		<u>2,794</u>	<u>4,421</u>
The following show the movement of provision for Al-Qard Al-Hasan fund:			
Balance at the beginning of the year		45	45
Add: Provided during the year	38	<u>383</u>	<u>-</u>
Balance at the end of the year		<u>428</u>	<u>45</u>

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**Basheer Sultan Al-Maktari**  
Financial Manager

**Mahmoud Ata Hassan Al-Refae**  
General Manager

**Abdulgabbar Hayel Saeed**  
Chairman

**English Translation of the Original Arabic Text**

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

**CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT  
ACCOUNTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

  

	<b>2014</b>		
	<b>Balance at January 1, 2014 YR 000s</b>	<b>Movements during the year deposits (withdrawal) YR 000s</b>	<b>Balance at December 31, 2014 YR 000s</b>
Investment securities	-	-	-
Investment in real estate	-	3,657,525	3,657,525
Other	-	-	-
Total	<u>-</u>	<u>3,657,525</u>	<u>3,657,525</u>

The attached notes on pages 10 to 67 are an integral part of these consolidated financial statements. Independent auditor's report is set out on pages 1 and 2.

**Basheer Sultan Al-Maktari**  
**Financial Manager**

**Mahmoud Ata Hassan Al-Refae**  
**General Manager**

**Abdulgabbar Hayel Saeed**  
**Chairman**

## English Translation of the Original Arabic Text

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

#### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015**

##### **1. BACKGROUND INFORMATION**

Tadhamon International Islamic Bank (the Bank) was established under the name of Yemen Islamic Bank for Investment and Development a (Yemeni joint-stock company) in accordance with the Ministerial Decree No. (147) for the year 1995. The name of the Bank has been changed to Tadhamon Islamic Bank according to the Ministerial Decree No. (169) for the year 1996. On March 20, 2002, the Extraordinary General Assembly decided to change the name of the Bank to Tadhamon International Islamic Bank.

The objectives of the Bank are to finance, invest, and offer banking services in accordance with Article No. (4) of the Bank's Articles of Association which states that the bank performs its activities in conformity with the precepts of Islamic Shari'a. The Bank started its activities on July 20, 1996, through the main branch in Sana'a and expanded to (23) branches all over the Republic of Yemen. The consolidated financial statements include the financial statements of the Bank and its subsidiaries inside and outside Yemen (together referred to as the "Group") as follows:

<u>Subsidiary Name</u>	<u>Percentage of Equity</u>		<u>Principal Activities</u>
	<u>2015</u>	<u>2014</u>	
Tadhamon Capital B.S.C.(c) – Bahrain	99.9%	99.9%	Financial services
Tadhamon Real Estate Ltd. – Yemen	95.0%	95.0%	Real estate development
Yem holding company.W.L.L – Bahrain	99 %	-	Holding company
Green Land Realty Limited – UAE	100 %	69.0%	Manage real estate assets
Tadhamon Investments Limited – UAE	100 %	100%	General Trading and owning properties
TIIB Group Real Estate Limited – UAE	100 %	100%	Manage real estate assets

##### **2. PREPARATION BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS**

###### *2.1 Statement of compliance*

- The consolidated financial statements are prepared in accordance with the Financial Accounting Standards issued by Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"), the Shari'a rules and principles as determined by the Shari'a Board of the Bank and instructions issued by the Central Bank of Yemen (CBY). Thus, the Group has adopted the International Financial Reporting Standards (IFRS) for the matters that are not covered by AAOIFI standards.
- The consolidated financial statements were approved by the Board of Directors on October 23, 2016.

###### *2.2 Basis of measurement*

- The consolidated financial statements have been prepared on the historical cost basis except for certain investments which are measured at fair value.

###### *2.3 Functional and presentation currency*

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

**English Translation of the Original Arabic Text**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

*2.4 Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at December 31, 2015. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

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

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

*2.5 Significant accounting judgments and estimates*

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual result may differ from these estimates.

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in notes (3.4, 3.8, 3.9, 3.12, 11, 13, 15, 18, 20, 21, 23, 25 and 27).

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

*a. Classification of investments*

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

**English Translation of the Original Arabic Text**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
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*b. Provision for impairment of assets*

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

*c. Impairment of available-for-sale equity investments*

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

*d. Impairment of held for trading investments*

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

*e. Valuation of unquoted private equity and real estate investments*

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

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

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

*f. Useful lives of property and equipment*

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

*g. Depreciation rates of Ijarah Muntahia Bittamleek*

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

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**3. SIGNIFICANT ACCOUNTING POLICIES**

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

*a. New standards, amendments, and interpretations effective from January 1, 2015:*

*1- Amendment to FAS 23 – Consolidation*

During the year, AAOIFI issued amendment to the FAS 23 which are effective on January 1, 2015.

The amendments introduced to FAS 23 give clarification on the way an Islamic Financial Institution (IFI) should determine if financial statements of an investee company, or a subsidiary, should be consolidated with its own. The amendments provide clarification that, in addition to the existing stipulations in the standard, control may also exist through rights arising from other contractual arrangement, voting rights of the Islamic financial institutions that give de facto power over an entity, potential voting rights, or a combination of these factors. In terms of voting rights, the amendments also clarify that an Islamic financial institution shall consider only substantive voting rights in its assessment of whether the institution has power over an entity. In order to be substantive, the voting rights need to be exercisable when relevant decisions are required to be made and the holder of such rights must have the practical ability to exercise those rights. Determination of voting rights shall include current substantive voting rights and currently exercisable voting rights.

The amendments and clarifications are effective for the annual financial periods ending on or after 31 December 2015. The transition provision requires retrospective application including restatement of previous period comparatives. Accordingly, the Group re-assessed its control conclusions for its investees as of January 1, 2015. As a consequence, the Group changed its control conclusion in respect of some investments. Previously, the Group would not have consolidated such investments, therefore, according to transitional provision of the amended FAS 23, the Group has applied changes in policy retrospectively, and has restated the relevant amount as if the investee had been consolidated from the date the Group obtained control. The quantitative impact of the changes is set out below.

*2- Impact of changes in accounting policies*

2.1 Consolidated statement of financial position as at December 31, 2014:

	<b>As previously reported <u>YR 000's</u></b>	<b>Impact of consolidation <u>YR 000's</u></b>	<b>As restated <u>YR 000's</u></b>
<b>Assets</b>			
Due from banks and financial institutions	52,355,099	142,653	52,497,752
Investment in Islamic Sukuk	108,545,890	( 3,227,650)	105,318,240
Investment in real estate	146,855,059	( 519,272)	146,335,787
Debit balances and other assets (net)	6,980,108	3,445,783	10,425,891
Total assets	517,705,372	( 158,485)	517,546,887

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	<b>As previously reported <u>YR 000's</u></b>	<b>Impact of consolidation <u>YR 000's</u></b>	<b>As restated <u>YR 000's</u></b>
<b>Liabilities</b>			
Current accounts and other deposits	128,889,200	106,004	128,995,204
Credit balances and other liabilities	5,894,949	185,078	6,080,027
Total liabilities	136,121,540	291,082	136,412,622
<b>Equity</b>			
Retained earnings	404,957	( 303,944)	101,013
Non-controlling interests	1,697,753	( 145,622)	1,552,131

2.2 Consolidated income statement for the year ended December 31,2014

	<b>As previously reported <u>YR 000's</u></b>	<b>Impact of consolidation <u>YR 000's</u></b>	<b>As restated <u>YR 000's</u></b>
<b>Assets</b>			
Income from other joint investments	12,877,550	179,598	13,057,148
Impairment on fair value for investment in real estate (unrealized)	-	( 453,418)	( 453,418)
Other expenses	( 3,790,386)	( 178,477)	( 3,968,863)
(Loss) for the year attributable to:	( 715,246)	( 452,297)	( 1,167,543)
Shareholders of the Bank	( 715,499)	( 303,946)	( 1,019,445)
Non-controlling interests	253	( 148,351)	( 148,098)

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

The following new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2016 and are expected to be relevant to the Group.

*FAS 27 – Investments Accounts*

FAS 27 Investments accounts was issued in December 2014 replacing FAS 5 – ‘Disclosures of Bases for Profit Allocation between Owner’s Equity and Investment Account Holders’ and FAS 6 – ‘Equity of Investment Account Holders and their Equivalent’ which is effective from January 1, 2016. The adoption of this standard would lead to enhance certain disclosures with respect to investment account holders’ and bases for profit allocation and the adoption of this standard is not expected to have any significant impact on the financial statements of the Group.



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##### *3.1 Foreign currencies transaction*

- In preparing the consolidated financial statements of the Group, transactions in currencies other than the Bank's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

- The currencies used by the group companies are either Yemeni Rials or US Dollars. The translation of financial statements of the group companies that have a functional currency different from the presentation currency do not result in exchange differences.
- The Group does not engage in forward contracts to meet its obligations in foreign currencies, nor does it engage in foreign exchange contracts to cover the risk of settlement of future liabilities in foreign currencies or its customer's need to meet their obligations in foreign currencies resulting from their transaction through the Group.

##### *3.2 Financial contracts*

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

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

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

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**Wakala**

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

**Sukuk**

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

**Murabaha receivables**

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

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

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

**Istisna'a**

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

**Mudaraba**

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

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

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**Mushraka**

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

Musharaka stated at cost less impairment provision.

**Ijarah Muntahia Bittamleek Receivables**

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

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

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

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

**3.3 *Investment securities***

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

**a. Classification**

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

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Debt-type Instruments:

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

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

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

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

*Equity-type investments*

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

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

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

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

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b. Recognition and de-recognition

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

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

c. Measurement

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

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

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

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

d. Measurement principles

- Amortised cost measurement

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

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- Fair value measurement

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

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

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

**3.4 Impairment of financial assets**

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

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

- For assets carried at fair value, impairment is the difference between cost and fair value.
- For assets carried at amortized cost, impairment is based on estimated cash flows based on the original effective profit rate.
- For assets carried at cost, impairment is based on present value of anticipated cash flows based on the current market rate of return for a similar financial assets.
- *Valuation of Murabaha and Istisna'a financing transactions*
  - a. Debts related to Murabaha and Istisna'a financing transactions, whether short or long term, are recorded at cost plus agreed-upon profits in Murabaha or Istisna'a contracts. In order to comply with the requirements of the Central Bank of Yemen, provision is provided for specific debts of Murabaha, Istisna'a and contingent liabilities, in addition to a percentage for general risk calculated on the total of

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other Murabaha, Istisna'a and contingent liabilities after deducting balances secured by deposits and banks' guarantees issued by foreign worthy banks. Provision is determined based on periodical comprehensive reviews of the Murabaha, Istisna'a and contingent liabilities and made in accordance with the following minimum rates:

Performing debts including watch list (due within 90 days) 2% (2014: 1%)

Non-performing debts:

Substandard debts (due from 90 days and less than 180 days) 15%

Doubtful debts (due from 180 days and less than 360 days) 45%

Bad debts (due for more than 360 days) 100%

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

- *Valuation investments in Mudaraba and Musharaka contracts*

- a. Investments in Mudaraba and Musharaka contracts are recorded on the basis of the amount paid to the capital of Mudaraba or Muasharaka. In-kind investments in Mudaraba and Musharaka contracts are recorded based on the agreed-upon value between the Group 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, a provision is made for specific Mudaraba and Musharaka contracts which realized losses, in addition to a percentage for general risk calculated on the total investments of Mudaraba and Musharaka contracts after deducting balances secured by deposits and Banks' guarantees issued by worthy Bank.

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

Performing debts including watch list (due within 90 days)	2% (2014: 1%)
Non-performing debts:	
Substandard debts (due from 90 days and less than 180 days)	15%
Doubtful debts (due from 180 days and less than 360 days)	45%
Bad debts (due for more than 360 days)	100%

- b. At the end of each year, the Mudaraba and Musharaka capitals are reduced by losses incurred which are charged to the income statement.
- c. Investments in Mudaraba and Musharaka contracts are presented on the statement of financial position at carrying value which represents cost less realized losses and related provisions (provision for non-performing debts and general risk provision on performing investments).
- *Ijarah Muntahia Bittamleek*
  - a. 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 term of the Ijarah's contract.
  - b. 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.
- *Valuation of assets whose titles have been transferred to the Group ownership as a repayment of debts*

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



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3.5 *Revenue recognition*

a. Financing Murabaha and Istisna'a transactions

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

b. Investment in Mudaraba and Musharaka contracts

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

c. Available-for-sale investments

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

d. Investments in real estate

Revenues from and costs of contracts are recognized based on the completion level reached at the financial statements date. The percentage of completion is estimated based on the costs incurred for work performed up to the financial statements date to total estimated costs to complete the contract.

Any excess of total anticipated contract costs over total anticipated contract revenues is immediately recognized as an expense in the consolidated income statement.

e. Ijarah Muntahia Bittamleek

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

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- f. Fees and commission income  
Fees and commission income that are integral to the effective profit rate on a financial asset carried at amortized cost are included in the measurement of the effective profit rate of the financial asset.  
  
Fees and commission income are recognized when the related services are performed.
- g. Wakala Income  
Estimated income from Wakala is recognized on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.
- h. Income from Sukuk and income / expenses on deposits is recognized at its effective profit rate over the term of the instrument.
- i. In accordance with CBY instructions, the reversed provisions, no longer required provisions, are recorded in the income statement under “other operating income”.

**3.6 *Restricted investment accounts***

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

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

**3.7 *Investments in real estate***

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

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

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3.8 *Property, equipment and depreciation*

a. Recognition and measurement

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

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and is recognized net within "other income/expenses" in the consolidated income statement. When revalued assets are sold, any related amount included in the revaluation surplus reserve is transferred to retained earnings.

b. Subsequent costs

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

c. Depreciation

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

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

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

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

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

**3.9 *Impairment of non-financial assets***

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

**3.10 *Contingent liabilities and commitments***

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

**3.11 *Cash and cash equivalents***

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

**3.12 *Other provisions***

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

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*3.13 End of service benefits*

- with regard to the Group employees in Yemen, all the employees of the Bank are contributing to the social security scheme in accordance with the Republic of Yemen's Social Insurance Law No. (26) of 1991. Payments are made to the Social Security General Corporation before the 10th day of next month. The Bank's contribution is charged to the consolidated income statement.
- The provisions of social security law in Republic of Yemen are applied for all Group employees in Yemen concerning to Social Security.

*3.14 Offsetting*

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

*3.15 Lease contracts*

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

*3.16 Earnings per share*

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

*3.17 Comparatives*

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

*3.18 Taxes*

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

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

- The tax due for the Group outside Yemen is calculated according to the prevailing laws and regulations in that countries where the Group has subsidiaries.

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*3.19 Revenue prohibited by Shari'a rules and principles*

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

*3.20 Customers' current accounts*

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

*3.21 Equity of investment account holders*

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

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

**4. SUPERVISION OF CENTRAL BANK OF YEMEN**

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

**5. FATWA AND SHARI'A' SUPERVISORY BOARD**

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

**6. ZAKAT**

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

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

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**7. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT**

**7.1 Financial instruments**

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

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

b. Fair value hierarchy

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

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

Level 2: Fair values are based on inputs other than quoted prices included within level 1 that are observable for the assets either directly (i.e. as price) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Fair values are based on valuation techniques using unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable input have a significant impact on the instrument's valuation.

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

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	<b>December 31, 2015</b>			
	<b>Level 1 YR 000's</b>	<b>Level 2 YR 000's</b>	<b>Level 3 YR 000's</b>	<b>Total YR 000's</b>
Investment securities				
- Equity type instruments carried at fair value through income statement	1,505,873	-	27,912,301	29,418,174
- Equity type instruments carried at fair value through equity (available for sale investments)	-	-	6,144,915	6,144,915
	<u>1,505,873</u>	<u>-</u>	<u>34,057,216</u>	<u>35,563,089</u>

  

	<b>December 31, 2014</b>			
	<b>Level 1 YR 000's</b>	<b>Level 2 YR 000's</b>	<b>Level 3 YR 000's</b>	<b>Total YR 000's</b>
Investment securities				
- Equity type instruments carried at fair value through income statement	-	-	-	-
- Equity type instruments carried at fair value through equity (available for sale investments)	-	-	23,547,428	23,547,428
	<u>-</u>	<u>-</u>	<u>23,547,428</u>	<u>23,547,428</u>

During the year ended December 31, 2015 as well as the year ended December 31, 2014 there were no transfers between levels of the fair value measurement.

c. **Financial instruments for which fair value approximates carrying value**

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

d. **Fair value of financial instruments**

The fair value of financial assets traded in financial markets is determined by reference to quoted market bid prices on a regulated exchange at the close of business on the year-end date. For financial assets where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same. Where it is not possible to arrive at a reliable estimate of the fair value, the financial assets are carried at cost until sometime reliable measure of the fair value is available.

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



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

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

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	<b>December 31, 2014</b>				
	<b>Carried at Fair Value Through Income Statement YR 000's</b>	<b>Available for Sale Carried at Fair Value Through Equity YR 000's</b>	<b>Amortised Cost / Other YR 000's</b>	<b>Total Carrying Amount YR 000's</b>	<b>Fair Value YR 000's</b>
<b>Financial assets</b>					
Cash on hand and reserve balances with CBY	-	-	51,483,515	51,483,515	51,483,515
Due from banks and financial institutions	-	-	52,497,752	52,497,752	52,497,752
Financing Murabaha and Istisna'a transactions (net)	-	-	76,298,191	76,298,191	76,298,191
Musharaka investments contracts (net)	-	-	268,613	268,613	268,613
Mudaraba investments contracts (net)	-	-	42,641,622	42,641,622	42,641,622
Investment in Islamic Sukuk	-	-	105,318,240	105,318,240	105,318,240
Investment securities	-	23,547,428	-	23,547,428	23,547,428
Ijarah Muntahia Bittamleek Receivables (net)	-	-	2,903,885	2,903,885	2,903,885
Qard hasan (net)	-	-	4,421	4,421	4,421
	<u>-</u>	<u>23,547,428</u>	<u>331,416,239</u>	<u>354,963,667</u>	<u>354,963,667</u>
<b>Financial liabilities</b>					
Due to banks and financial institutions	-	-	550,567	550,567	550,567
Current accounts and other deposits	-	-	128,995,204	128,995,204	128,995,204
Equity of unrestricted investments and saving accounts' holders	-	-	323,522,776	323,522,776	323,522,776
	<u>-</u>	<u>-</u>	<u>453,068,547</u>	<u>453,068,547</u>	<u>453,068,547</u>

**7.2 Risk management of financial instruments**

- **Risk management framework**

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

- **Risk management structure**

The Board of Directors is ultimately responsible for identifying and controlling risks, however, there are separate independent bodies responsible for managing and monitoring risks including the following:

- **Executive Committee**

The Executive Committee has the responsibility to monitor the overall risk process within the Group.

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- Credit/Risk Committee  
Credit/Risk Committee's primary role is selection and implementation of risk management systems, portfolio monitoring, risk reporting to the Board, Board Committee, Regulators and Executive management. In addition, credit transaction approval.
- Asset and Liability Committee  
The Asset and Liability Committee establishes policy and objectives for the asset and liability management of the Group's financial position in terms of structure, distribution, risk and return and its impact on profitability.
- Audit Committee  
The Audit Committee is appointed by the Board of Directors who are non-executive directors. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Group, the measurement system of risk assessment and relating these to the Group's capital, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.
- Sharia supervisory board  
The Shari'a Supervisory Board is entrusted with the responsibility to ensure adherence to Sahri'a rules and principle in its transactions and activities.
- Risk measurement  
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 Group as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.  
  
Information compiled from all businesses is examined and processed in order to analyze, control and identify early risks.  
  
The Group is exposed to credit risk, liquidity risk, market risk (which include return rate risk and currency risk), operating risk and other risk.
- a. Credit risk  
Financing of Murabaha, Istisna'a transactions, Mudaraba and Musharaka contracts, Ijarah Muntahia Bittamleek and their related debts, due from banks and financial investments and rights and obligations from other parties are considered as financial assets exposed to credit risk. Credit risk represents the inability of these parties to meet their obligations when they fall due.

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**Management of credit risk**

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

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

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

<b><u>Grade</u></b>	<b><u>Classification</u></b>	<b><u>2015 YR 000s</u></b>	<b><u>2014 YR 000s</u></b>
1 - 2	Performing and watchlist	<u>78,429,502</u>	<u>144,390,379</u>

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

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

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

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	<b>2015</b>	<b>2014</b>
	<b><u>YR 000's</u></b>	<b><u>YR 000's</u></b>
Cash on hand and reserve balances with CBY (exclude cash on hand and ATMs)	34,777,635	36,854,508
Due from banks and financial institutions	108,317,628	52,497,752
Financing Murabaha and Istisna'a transactions (net)	35,088,898	76,298,191
Musharaka investment contracts (net)	-	268,613
Mudaraba investment contracts (net)	31,335,303	42,641,622
Investment in Islamic Sukuk	89,309,980	105,318,240
Investment securities	35,563,089	23,547,428
Investment in real estate	134,448,430	146,335,787
Ijarah Muntahia Bittamleek receivables (net)	15,726	2,903,885
Qard Hasan (net)	2,794	4,421
Debit balances and other assets (net) after deducting the advance payments	<u>13,117,389</u>	<u>8,951,164</u>
	481,976,872	495,621,611
Contingent liabilities and commitments	<u>27,440,590</u>	<u>53,373,597</u>
Total credit exposure	<u>509,417,462</u>	<u>548,995,208</u>

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

	<b>2015</b>		<b>2014</b>	
	<b>Gross Maximum Exposure YR000's</b>	<b>Net Maximum Exposure YR 000's</b>	<b>Gross Maximum Exposure YR 000's</b>	<b>Net Maximum Exposure YR 000's</b>
Governmental	206,513,589	-	162,482,181	-
Financial	64,607,817	40,697,837	58,984,427	29,947,227
Industrial	19,670,450	19,521,372	26,060,036	26,060,036
Commercial	172,572,591	105,497,669	228,643,230	155,475,230
Agricultural and fishing	9,408	9,408	-	-
Others	<u>18,603,017</u>	<u>18,603,017</u>	<u>19,451,737</u>	<u>19,451,737</u>
	481,976,872	184,329,303	495,621,611	230,934,230
Contingent liabilities and commitments	<u>27,440,590</u>	<u>15,079,327</u>	<u>53,373,597</u>	<u>24,719,013</u>
	<u>509,417,462</u>	<u>199,408,630</u>	<u>548,995,208</u>	<u>255,653,243</u>

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

b. Liquidity risk

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

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

**Management liquidity risk**

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

The Central Bank of Yemen Circular No. 3 of 1997 requires that the liquidity ratio be 25% as a minimum. The liquidity rate as at December 31, 2015 was 45% (as at December 31, 2014 was 34%).

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

	<b>2015</b>				
	<b>Due within 3 months YR 000's</b>	<b>Due from 3 to 6 months YR 000's</b>	<b>Due from 6 months to 1 year YR 000's</b>	<b>Due more 1 year YR 000's</b>	<b>Total YR 000's</b>
<b><u>Liabilities</u></b>					
Due to banks and financial institutions	2,017,420	-	-	-	2,017,420
Current accounts and other deposits	141,602,348	-	-	-	141,602,348
Equity of unrestricted investment and saving accounts' holders	36,816,200	28,910,111	54,136,512	170,157,572	290,020,395
Credit balances and other liabilities	<u>5,830,186</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,830,186</u>
Total liabilities	<u>186,266,154</u>	<u>28,910,111</u>	<u>54,136,512</u>	<u>170,157,572</u>	<u>439,470,349</u>
	<b>2014</b>				
	<b>Due within 3 months YR 000's</b>	<b>Due from 3 to 6 months YR 000's</b>	<b>Due from 6 months to 1 year YR 000's</b>	<b>Due more 1 year YR 000's</b>	<b>Total YR 000's</b>
<b><u>Liabilities</u></b>					
Due to banks and financial institutions	550,567	-	-	-	550,567
Current accounts and other deposits	128,995,204	-	-	-	128,995,204
Equity of unrestricted investment and saving accounts' holders	35,458,426	30,386,532	59,435,256	198,242,562	323,522,776
Credit balances and other liabilities	<u>6,080,027</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,080,027</u>
Total liabilities	<u>171,084,224</u>	<u>30,386,532</u>	<u>59,435,256</u>	<u>198,242,562</u>	<u>459,148,574</u>

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

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c. Market risk

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

- Management of market risk

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

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

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

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

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

- Return rate risk

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

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

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- Exchange rate risk for foreign currencies

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

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

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

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

	2015						Total YR 000s
	US Dollars YR 000s	EURO YR 000s	Saudi Riyal YR 000s	Sterling Pound YR 000s	AED YR 000s	Others YR 000s	
Assets	131,952,283	2,471,391	83,158,046	462,877	19,348,801	161,621	237,555,019
Liabilities	(116,159,306)	(3,136,390)	(81,855,612)	(708,565)	(1,611,520)	(4,874)	(203,476,267)
Net currency position	<u>15,792,977</u>	<u>(664,999)</u>	<u>1,302,434</u>	<u>(245,688)</u>	<u>17,737,281</u>	<u>156,747</u>	<u>34,078,752</u>
	2014						Total YR 000s
	US Dollars YR 000s	EURO YR 000s	Saudi Riyal YR 000s	Sterling Pound YR 000s	AED YR 000s	Others YR 000s	
Assets	143,379,121	2,457,321	86,190,837	5,911,097	36,311,128	8,376,447	282,625,951
Liabilities	(132,562,865)	(2,862,020)	(74,056,544)	(372,546)	(290,895)	(1,989)	(210,146,859)
Net currency position	<u>10,816,256</u>	<u>(404,699)</u>	<u>12,134,293</u>	<u>(5,538,551)</u>	<u>36,020,233</u>	<u>8,374,458</u>	<u>72,479,092</u>

**Effect of change in fair value of currency**

The table below indicates the effect of a reasonably possible movement of the currency rate against the Yemeni Riyal on the consolidated income statement, with all other variables held constant:



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<u>Change in Currency rate (1%)</u> <u>Currency</u>	<b>Effect on</b> <b>Consolidated Income Statement</b>	
	<b>Increase (Decrease)</b>	
	<b>2015</b>	<b>2014</b>
	<b>YR 000s</b>	<b>YR 000s</b>
US\$	157,930	108,163
Euro	( 6,650)	( 4,047)
Saudi Rials	13,024	121,343
Sterling Pound	( 2,457)	55,386
AED	177,373	360,202
Other Currencies	1,567	83,745

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

d. Operational risk

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

e. Other risks

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

**8. CAPITAL MANAGEMENT**

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

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

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

	<b>2015</b>	<b>2014</b>
	<b><u>YR Millions</u></b>	<b><u>YR Millions</u></b>
Core capital	33,606	36,836
Supplementary capital	<u>26,836</u>	<u>20,661</u>
Total capital	<u>60,442</u>	<u>57,497</u>
<b><u>Risk-weighted assets and liabilities:</u></b>		
Total assets	208,686	257,021
Contingent liabilities and commitments	<u>15,079</u>	<u>24,719</u>
Total risk-weighted assets and liabilities	<u>223,765</u>	<u>281,740</u>
Capital adequacy ratio	<u><u>%27,01</u></u>	<u><u>%20,41</u></u>

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

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

	<b>2015</b>	<b>2014</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Cash on hand and ATM - local currency	2,238,451	6,994,148
Cash on hand and ATM - foreign currencies	<u>7,885,688</u>	<u>7,634,859</u>
	<u>10,124,139</u>	<u>14,629,007</u>
Mandatory reserve with CBY - local currency	16,643,271	16,429,577
Mandatory reserve with CBY - foreign currency	<u>18,134,352</u>	<u>20,424,005</u>
	<u>34,777,623</u>	<u>36,853,582</u>
Valuable metals (gold and silver)	<u>12</u>	<u>926</u>
	<u><u>44,901,774</u></u>	<u><u>51,483,515</u></u>

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

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**10. DUE FROM BANKS AND FINANCIAL INSTITUTIONS**

	<b>2015</b>	<b>2014</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
<b>Central Bank of Yemen</b>		
Current accounts - local currency *	78,884,692	19,590,988
Current accounts - foreign currency	<u>3,832,953</u>	<u>907,760</u>
	<u>82,717,645</u>	<u>20,498,748</u>
<b>Local Banks</b>		
Current accounts – local currency	<u>103,702</u>	<u>-</u>
<b>Foreign Banks and financial institutions</b>		
Current accounts – foreign currency	8,494,285	13,431,288
Investment deposits – foreign currency	1,751,694	1,172,931
Wakala placements – foreign currency	13,242,694	13,466,541
Margins – foreign currency	<u>2,007,608</u>	<u>3,928,244</u>
	<u>25,496,281</u>	<u>31,999,004</u>
	<u>108,317,628</u>	<u>52,497,752</u>

\* As at December 31, 2015 the Central Bank of Yemen current account – local currency include amount of YR 16,000,000 thousand represented of Islamic Sukuk matured during the year and have not been collected at the time. The bank management following up the Unit of the Islamic Sukuk at CBY for collecting the amount of those sukuk.

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

	<b>2015</b>	<b>2014</b>
<b><u>Note</u></b>	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Financing Murabaha transactions	39,028,269	69,584,677
Financing Istisna'a transactions	<u>4,636,833</u>	<u>13,554,152</u>
	43,665,102	83,138,829
Less: Provision for financing Murabaha and Istisna'a transactions	12 ( 5,592,969)	( 2,757,746)
Less: Deferred revenues	<u>( 2,983,235)</u>	<u>( 4,082,892)</u>
	<u>35,088,898</u>	<u>76,298,191</u>

- According to the Banks Law No. (38) of 1998, Article No. 85, and Income Tax Law No. 17 of 2010, Article No. 14, all provisions made in compliance with the Central Bank of Yemen instructions are exempt from income tax.

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- Non-performing financing Murabaha and Istisna'a transactions amounted to YR 8,517,216 thousand as at December 31, 2015 after deducting balances secured by cash deposits amount to 316,851 thousand (YR 6,960,767 thousand as at December 31, 2014). The break-up of the above amount is as follows:

	<b>2015</b>	<b>2014</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Substandard debts	1,210,464	4,544,979
Doubtful debts	4,679,628	1,728,740
Bad debts	<u>2,627,124</u>	<u>687,048</u>
	<u>8,517,216</u>	<u>6,960,767</u>

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

	<b>2015</b>			<b>2014</b>		
<b>Note</b>	<b>Specific</b>	<b>General</b>	<b>Total</b>	<b>Specific</b>	<b>General</b>	<b>Total</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Balance at beginning of the year	1,987,799	769,947	2,757,746	2,765,662	897,360	3,663,022
Add: provided during the year 38	3,073,944	-	3,073,944	39,775	41,000	80,775
Transferred from General provision to specific provision	29,483	( 29,483)	-	-	-	-
Provision reversed 37	( 176,699)	( 62,022)	( 238,721)	( 817,638)	( 168,413)	( 986,051)
Balance at end of the year	<u>4,914,527</u>	<u>678,442</u>	<u>5,592,969</u>	<u>1,987,799</u>	<u>769,947</u>	<u>2,757,746</u>

**13. MUSHARAKA INVESTMENT CONTRACTS (NET)**

	<b>Note</b>	<b>2015</b>	<b>2014</b>
		<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Musharaka investment contracts – Local		268,613	1,757,992
Less: provision for Musharaka investment contracts	14	( 268,613)	( 1,489,379)
		<u>-</u>	<u>268,613</u>

Non-performing Musharaka investment contracts which were classified as bad debts amounted to YR 268,613 thousand as at December 31, 2015 (YR 1,489,379 thousand as at December 31, 2014).

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

	Note	2015			2014		
		Specific YR 000s	General YR 000s	Total YR 000s	Specific YR 000s	General YR 000s	Total YR 000s
Balance at beginning of the year		1,489,379	-	1,489,379	714,807	-	714,807
Add: provided during the year	38	-	-	-	774,572	-	774,572
Less: used during the year		( 168,002)	-	( 168,002)	-	-	-
Provision reversed	37	( 1,052,764)	-	( 1,052,764)	-	-	-
Balance at end of the year		<u>268,613</u>	<u>-</u>	<u>268,613</u>	<u>1,489,379</u>	<u>-</u>	<u>1,489,379</u>

**15. MUDARABA INVESTMENT CONTRACTS (NET)**

	Note	2015 YR 000s	2014 YR 000s
Mudaraba investment contracts - local		19,532,968	30,659,994
Mudaraba investment contracts - foreign		14,049,072	14,444,994
Less: provision for Mudaraba investment contracts	16	( 2,246,737)	( 2,463,366)
		<u>31,335,303</u>	<u>42,641,622</u>

Non-performing Mudaraba investment contracts amounted to YR 1,936,995 thousand as at December 31, 2015 (YR 2,440,478 as at December 31, 2014).

The break-up of the above amount is as follows:

	2015 YR 000s	2014 YR 000s
Doubtful debts	97,160	-
Bad debts	<u>1,839,835</u>	<u>2,440,478</u>
	<u>1,936,995</u>	<u>2,440,478</u>

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

	Note	2015			2014		
		Specific YR 000s	General YR 000s	Total YR 000s	Specific YR 000s	General YR 000s	Total YR 000s
Balance at beginning of the year		2,440,478	22,888	2,463,366	4,012,521	17,888	4,030,409
Add: provided during the year	38	-	-	-	-	5,000	5,000
Transferred from General Provision to specific provision		( 340,292)	340,292	-	-	-	-
Provision reversed	37	( 216,629)	-	( 216,629)	( 1,572,043)	-	( 1,572,043)
Balance at end of the year		<u>1,883,557</u>	<u>363,180</u>	<u>2,246,737</u>	<u>2,440,478</u>	<u>22,888</u>	<u>2,463,366</u>

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**17. INVESTMENT IN ISLAMIC SKUK**

	<b>2015</b>	<b>2014</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
<b>Debt-type instruments</b>		
Sukuks at amortized cost		
- Islamic Sukuk – local (unquoted)	85,880,000	101,880,000
- Islamic Sukuk – foreign (quoted)	<u>3,429,980</u>	<u>3,438,240</u>
	<u>89,309,980</u>	<u>105,318,240</u>

- Investments in local Islamic Sukuk are issued by the unit of the Islamic Sukuk at CBY (unquoted), the nominal value of suk is YR 1,000,000 as at December 31, 2015 (YR 1,000,000 as at December 31, 2014 for each suk).
- The Yemeni Government represented by the Ministry of Finance guarantees the sukuk at the maturity dates and authorized the Central Bank of Yemen to deduct such dues from the Ministry of Finance account with the Central Bank of Yemen at the maturity dates.

**18. INVESTMENT SECURITIES**

	<b>Note</b>	<b>2015</b>	<b>2014</b>
		<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
<b>Equity-type instruments</b>			
<b>At fair value through equity</b>			
Available-for-sale investments – unquoted		6,975,538	27,294,899
Less: Impairment for available-for-sale investments	(18.1)	<u>( 830,623)</u>	<u>( 3,747,471)</u>
		<u>6,144,915</u>	<u>23,547,428</u>
<b>Investment securities – type instruments</b>			
<b>At fair value through income statement</b>			
- Quoted investments		1,505,873	-
- Unquoted investments		<u>28,527,323</u>	<u>-</u>
		30,033,196	-
Less: impairment on investment securities at fair value through income statement	40	<u>( 615,022)</u>	<u>-</u>
		<u>29,418,174</u>	<u>-</u>
		<u>35,563,089</u>	<u>23,547,428</u>

- As at December 31, 2015 and 2014, the available-for-sale investments are unquoted financial investments. Due to the difficulty of obtaining a reliable estimate of fair value for these investments as there are no quoted market prices and future cash flows are not determinable, these investments are carried at cost less the impairment.
- The impairment for some available for sale investments recognized because the Bank did not receive any dividends from these investments during prior years, and no dividends are expected to be received in the coming years.
- All of available-for-sale investments are non-classified by any international classification companies.

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**18.1 IMPAIRMENT ON AVAILABLE FOR SALES INVESTMENTS**

		<b>2015</b>	<b>2014</b>
	<b>Note</b>	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Balance at the beginning of the year		3,747,471	3,209,917
Less: used during the year		( 2,317,218)	( 365,335)
Impairment during the year	40	-	966,606
Reversed during the year	37	( 599,630)	( 63,717)
		<u>830,623</u>	<u>3,747,471</u>

**19. INVESTMENT IN REAL ESTATE**

		<b>2015</b>	<b>2014</b>
	<b>Note</b>	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Investment in real estate – local		13,397,579	13,865,059
Investment in real estate – foreign		<u>98,060,041</u>	<u>114,302,182</u>
		111,457,620	128,167,241
Changes in fair value (unrealized gain)	31.c	<u>25,446,381</u>	<u>19,216,945</u>
		136,904,001	147,384,186
Less: impairment on investment in real estate		( 1,360,329)	( 594,981)
Less: impairment on fair value of investment in real estate (unrealized)		( 1,095,242)	( 453,418)
		<u>134,448,430</u>	<u>146,335,787</u>

- As at December 31, 2015, investment in real estate-foreign, include an amount of YR 6,790,006 thousand represent in usufruct after deducted accumulated amortization amounted to YR 1,782,494 thousand (YR 1,187,000 thousand as at December 31,2014 ). The amortization for the year 2015 amounted to YR 595,495 thousand (YR 594,981 thousand for the year 2014). The amortization were recorded in the impairment on investment in real estate.

- Investment in real estate-foreign, include an amount of YR 56,501,658 thousand as at December 31, 2015 which are registered in the name of others parties in return for cession in favor of the Group (YR 56,342,010 thousand as at December 31,2014).

The real estate investments represent in the following:

		<b>2015</b>	<b>2014</b>
	<b>Note</b>	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Balance at the beginning of the year		128,167,241	142,327,581
Additions during the year		34,565	1,484,630
Disposed during the year		( 16,744,186)	( 15,644,970)
Total cost		111,457,620	128,167,241
Add: changes in fair value (unrealized gain)	31.c	25,446,381	19,216,945
Less: impairment on investment in real estate		( 1,360,329)	( 594,981)
Less: impairment on fair value for real estate investment (unrealized)		( 1,095,242)	( 453,418)
		<u>134,448,430</u>	<u>146,335,787</u>

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**20. IJARAH MUNTAHIA BITTAMLEEK RECEIVABLES (NET)**

	<u>Note</u>	<u>2015 YR 000s</u>	<u>2014 YR 000s</u>
Ijarah Muntahia Bittamlek receivables		29,784	2,914,337
Less: deferred revenues		( 6,083)	( 10,117)
Less: provision for impairment of Ijarah Muntahia Bittamleek receivables	20.1	( 7,975)	( 335)
Balance at the end of the year		<u>15,726</u>	<u>2,903,885</u>

**20.1 PROVISION FOR IMPAIRMENT IJARAH MUNTAHIA BITTAMLEEK  
RECEIVABLES**

	<u>Note</u>	<u>2015 YR 000s</u>	<u>2014 YR 000s</u>
Balance at the beginning of the year		335	10,315
Provided during the year	38	7,640	-
Provision reversed		-	( 9,980)
		<u>7,975</u>	<u>335</u>

**21. DEBIT BALANCES AND OTHER ASSETS (NET)**

	<u>Note</u>	<u>2015 YR 000s</u>	<u>2014 YR 000s</u>
Accrued income		5,214,362	7,241,962
Loans and advances		1,662,102	766,532
Projects in process (advances)		1,409,243	1,477,947
Prepaid expenses		133,707	139,681
Stationery, property and equipment inventory		279,743	332,061
Current account overdrawn		5,945,081	106,005
Other debit balances		<u>1,434,130</u>	<u>1,029,345</u>
		16,078,368	11,093,533
Less: provision for doubtful debt balances and other assets	22	( 1,418,029)	( 667,642)
		<u>14,660,339</u>	<u>10,425,891</u>

**22. PROVISION FOR DOUBTFUL DEBT BALANCES AND OTHER ASSETS**

	<u>Note</u>	<u>2015 YR 000s</u>	<u>2014 YR 000s</u>
Balance at the beginning of the year		667,642	360,653
Add: Provided during the year	38	750,387	349,679
Less: Used during the year		-	( 42,690)
Balance at the end of the year		<u>1,418,029</u>	<u>667,642</u>



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**23. PROPERTY AND EQUIPMENT (NET)**

	2015						
	<u>Land</u>	<u>Buildings</u>	<u>Machinery and</u>	<u>Motor</u>	<u>Furniture</u>	<u>Computer and</u>	<u>Total</u>
	<u>YR 000's</u>	<u>YR 000's</u>	<u>Equipment</u>	<u>Vehicles</u>	<u>and Fixtures</u>	<u>Equipment</u>	<u>YR 000's</u>
			<u>YR 000's</u>	<u>YR 000's</u>	<u>YR 000's</u>	<u>YR 000's</u>	
<b><u>Cost</u></b>							
Balance at January 1, 2015	1,266,107	2,510,338	1,443,037	384,590	385,819	3,179,885	9,169,776
Additions during the year	9,592	1,170	140,720	84,976	12,405	82,712	331,575
Disposals during the year	( 16,670)	-	( 16,199)	( 46,730)	( 1,303)	( 6,848)	( 87,750)
Balance at December 31, 2015	<u>1,259,029</u>	<u>2,511,508</u>	<u>1,567,558</u>	<u>422,836</u>	<u>396,921</u>	<u>3,255,749</u>	<u>9,413,601</u>
<b><u>Accumulated depreciation</u></b>							
Balance at January 1, 2015	-	372,022	735,436	215,828	273,054	1,751,894	3,348,234
Charge during the year	-	50,230	127,802	54,890	19,667	474,251	726,840
Disposals during the year	-	-	( 11,411)	( 35,274)	( 663)	( 2,148)	( 49,496)
Balance at December 31, 2015	<u>-</u>	<u>422,252</u>	<u>851,827</u>	<u>235,444</u>	<u>292,058</u>	<u>2,223,997</u>	<u>4,025,578</u>
<b><u>Net book value</u></b>							
Balance at December 31, 2015	<u>1,259,029</u>	<u>2,089,256</u>	<u>715,731</u>	<u>187,392</u>	<u>104,863</u>	<u>1,031,752</u>	<u>5,388,023</u>

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	2014						
	<u>Land</u>	<u>Buildings</u>	<u>Machinery and</u>	<u>Motor</u>	<u>Furniture</u>	<u>Computer and</u>	<u>Total</u>
	<u>YR 000's</u>	<u>YR 000's</u>	<u>Equipment</u>	<u>Vehicles</u>	<u>and Fixtures</u>	<u>Equipment</u>	<u>YR 000's</u>
<u>Cost</u>			<u>YR 000's</u>	<u>YR 000's</u>	<u>YR 000's</u>	<u>YR 000's</u>	
Balance at January 1, 2014	1,229,143	2,441,157	1,311,674	517,545	366,032	2,936,119	8,801,670
Additions during the year	36,964	73,934	168,334	58,905	23,359	301,988	663,484
Disposals during the year	-	(4,753)	(36,971)	(191,860)	(3,572)	(58,222)	(295,378)
Balance at December 31, 2014	<u>1,266,107</u>	<u>2,510,338</u>	<u>1,443,037</u>	<u>384,590</u>	<u>385,819</u>	<u>3,179,885</u>	<u>9,169,776</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2014	-	312,123	626,816	304,758	257,584	1,312,007	2,813,288
Charge during the year	-	60,660	131,080	70,837	20,378	471,019	753,974
Disposals during the year	-	(761)	(22,460)	(159,767)	(4,908)	(31,132)	(219,028)
Balance at December 31, 2014	<u>-</u>	<u>372,022</u>	<u>735,436</u>	<u>215,828</u>	<u>273,054</u>	<u>1,751,894</u>	<u>3,348,234</u>
<u>Net book value</u>							
Balance at December 31, 2014	<u>1,266,107</u>	<u>2,138,316</u>	<u>707,601</u>	<u>168,762</u>	<u>112,765</u>	<u>1,427,991</u>	<u>5,821,542</u>

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**24. CURRENT ACCOUNTS AND OTHER DEPOSITS**

	<b>2015</b>	<b>2014</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Current accounts – local currency	52,324,485	34,742,083
Current accounts – foreign currency	<u>84,278,809</u>	<u>86,487,639</u>
	<u>136,603,294</u>	<u>121,229,722</u>
Cash margin – letters of credit	1,014,256	2,440,245
Cash margin – letters of guarantee	2,148,246	3,760,522
Cash margin – others	102,329	87,451
Other deposits	<u>1,734,223</u>	<u>1,477,264</u>
	<u>4,999,054</u>	<u>7,765,482</u>
	<u>141,602,348</u>	<u>128,995,204</u>

**25. CREDIT BALANCES AND OTHER LIABILITIES**

	<b>2015</b>	<b>2014</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Income on investments collected in advance	1,232,094	232,269
Deposits of profit for unrestricted accounts' holders	1,084,625	1,146,099
Salary tax	30,183	10,870
Accrued expenses	1,121,569	765,182
Prohibited revenues by Islamic Shari'a	26 17,051	13,452
Other credit balances	<u>2,344,664</u>	<u>3,912,155</u>
	<u>5,830,186</u>	<u>6,080,027</u>

**26. PROHIBITED REVENUES BY ISLAMIC SHARI'A**

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

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

	<b>2015</b>	<b>2014</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Balance at the beginning of the year	13,452	2,631
Add: Resources (revenues) during the year	<u>3,599</u>	<u>10,821</u>
Total available balance during the year	17,051	13,452
Less: Uses (expenses) during the year		
Donations and charities	<u>-</u>	<u>-</u>
Balance at the end of the year	<u><u>17,051</u></u>	<u><u>13,452</u></u>

**27. OTHER PROVISIONS**

	<b>2015</b>				
	<b>Balance at beginning of the year</b>	<b>Provided during the year</b>	<b>Used during the year</b>	<b>Provisions reversed</b>	<b>Balance at end of the year</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Provision for contingent liabilities	471,728	-	-	( 228,947)	242,781
Provision for employees rights	230,242	-	( 29,035)	-	201,207
Provision for contingent claim	<u>84,854</u>	<u>-</u>	<u>( 23,063)</u>	<u>-</u>	<u>61,791</u>
	<u><u>786,824</u></u>	<u><u>-</u></u>	<u><u>( 52,098)</u></u>	<u><u>( 228,947)</u></u>	<u><u>505,779</u></u>
	<b>2014</b>				
	<b>Balance at beginning of the year</b>	<b>Provided during the year</b>	<b>Used during the year</b>	<b>Provisions reversed</b>	<b>Balance at end of the year</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Provision for contingent liabilities	614,042	-	-	( 142,314)	471,728
Provision for employees rights	246,624	214,949	( 214,949)	( 16,382)	230,242
Provision for contingent claim	<u>96,847</u>	<u>-</u>	<u>( 11,993)</u>	<u>-</u>	<u>84,854</u>
	<u><u>957,513</u></u>	<u><u>214,949</u></u>	<u><u>( 226,942)</u></u>	<u><u>( 158,696)</u></u>	<u><u>786,824</u></u>

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**28. EQUITY OF UNRESTRICTED INVESTMENT AND SAVING ACCOUNTS' HOLDERS**

	<u>2015</u> <u>YR 000s</u>	<u>2014</u> <u>YR 000s</u>
Unrestricted investment deposits – local currency	138,228,159	115,544,423
Unrestricted investment deposits – foreign currency	<u>63,365,978</u>	<u>96,861,724</u>
	<u>201,594,137</u>	<u>212,406,147</u>
Saving deposits – local currency	37,462,439	49,885,936
Saving deposits – foreign currency	<u>38,267,726</u>	<u>46,007,036</u>
	<u>75,730,165</u>	<u>95,892,972</u>
Return of unrestricted investment and saving accounts' holders	<u>12,696,093</u>	<u>15,223,657</u>
	<u>290,020,395</u>	<u>323,522,776</u>

**29. RETURN OF UNRESTRICTED INVESTMENT AND SAVING ACCOUNTS HOLDERS**

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

	<u>2015</u>		<u>2014</u>	
	<u>Yemeni Rial %</u>	<u>Foreign currencies %</u>	<u>Yemeni Rial %</u>	<u>Foreign currencies %</u>
Investment deposits	7.06%	3.03%	8.02%	3.03%
Investment saving accounts	3.96%	1.71%	4.50%	1.71%

**30. SHARE CAPITAL**

As at December 31, 2015, the authorized, issued and paid-up capital is YR 20 billion (YR 20 billion as at December 31, 2014) divided into 20 million shares with nominal value of amounting to YR 1,000 per share in accordance with the Extraordinary General Assembly meeting dated August 19, 2009 concerning to increase the share capital from YR 10 billion to YR 20 billion.

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**31. RESERVES**

*a. Statutory reserve*

According to the provisions of the Banks Law No. (38) of 1998 and the Bank's Articles of Association, 15% of the net profit for the year is transferred to statutory reserve until the balance of this reserve reach twice the share capital. The Bank cannot use this reserve without the prior approval of the Central Bank of Yemen. As at December 31, 2015, the statutory reserve amounted to YR 16,616,321 thousand (YR 16,499,262 thousand as at December 31, 2014).

*b. General reserve*

According to the Articles of Associations, not more than 5% of the net profit for the year is transferred to general reserve. This is done by decision of the General Assembly based on the Board of Director's proposal. As at December 31, 2015, the general reserve amounted to YR 261,246 thousand (YR 261,246 thousand as at December 31, 2014).

*c. Other reserve*

	<u>Note</u>	<u>2015</u> <u>YR 000s</u>	<u>2014</u> <u>YR 000s</u>
Fair value reserve for real estate investments	19	25,446,381	19,216,945
Reserve for translation of foreign currencies		( 30,009)	( 19,108)
		<u>25,416,372</u>	<u>19,197,837</u>

**32. CONTINGENT LIABILITIES AND COMMITMENTS (NET)**

	<u>2015</u>		
	<u>Gross</u> <u>commitments</u> <u>YR 000s</u>	<u>Cash margin</u> <u>held</u> <u>YR 000s</u>	<u>Net</u> <u>commitments</u> <u>YR 000s</u>
Letters of credit	5,210,523	( 1,014,256)	4,196,267
Letters of guarantee	<u>22,230,067</u>	( <u>2,148,246</u> )	<u>20,081,821</u>
	<u>27,440,590</u>	( <u>3,162,502</u> )	<u>24,278,088</u>
	<u>2014</u>		
	<u>Gross</u> <u>commitments</u> <u>YR 000s</u>	<u>Cash margin</u> <u>held</u> <u>YR 000s</u>	<u>Net</u> <u>commitments</u> <u>YR 000s</u>
Letters of credit	21,356,367	( 2,440,245)	18,916,122
Letters of guarantee	<u>32,017,230</u>	( <u>3,760,522</u> )	<u>28,256,708</u>
	<u>53,373,597</u>	( <u>6,200,767</u> )	<u>47,172,830</u>

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**33. INCOME FROM FINANCING MURABAHA AND ISTISNA'A TRANSACTIONS**

	<b>2015</b>	<b>2014</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Income from financing Murabaha transactions	3,945,994	7,067,423
Income from Istisna'a transactions	<u>957,244</u>	<u>1,395,864</u>
	<u><u>4,903,238</u></u>	<u><u>8,463,287</u></u>

**34. INCOME FROM OTHER JOINT INVESTMENTS**

	<b>2015</b>	<b>2014</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
<b>Income from banks and financial institutions</b>		
Income from investment deposits	36,974	35,221
Income from Wakala placements	<u>667,181</u>	<u>643,357</u>
	<u>704,155</u>	<u>678,578</u>
<b>Income from investment securities</b>		
Income from Islamic Sukuk	9,979,083	8,521,953
Income from available for sales investments	988,246	-
Income from investments through income statement	<u>456,007</u>	<u>2,592</u>
	<u><u>11,423,336</u></u>	<u><u>8,524,545</u></u>
	12,127,491	9,203,123
<b>Income from Musharaka investment contracts</b>	-	100,931
<b>Income from Mudaraba investment contracts</b>	20,854	219,564
<b>Income from investments in real estate</b>	1,946,653	2,633,436
<b>Income from Ijarah Muntahia Bittamleek</b>	2,691	5,754
<b>Other joint income</b>	<u>58,560</u>	<u>894,340</u>
	<u><u>14,156,249</u></u>	<u><u>13,057,148</u></u>

**35. FEES AND COMMISSION INCOME**

	<b>2015</b>	<b>2014</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Commissions on letter of credits	592,665	952,218
Commissions on letter of guarantees	234,213	259,458
Commission on transfer of funds	423,296	148,388
Other fees and commissions	<u>303,447</u>	<u>353,075</u>
	<u><u>1,553,621</u></u>	<u><u>1,713,139</u></u>

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**36. GAINS ON FOREIGN CURRENCY TRANSACTIONS**

	<b><u>2015</u></b>	<b><u>2014</u></b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Gain on dealing in foreign currencies	2,115,148	75,634
Gain (loss) from translation of foreign currencies balances	<u>1,875,626</u>	<u>(60,722)</u>
	<u>3,990,774</u>	<u>14,912</u>

**37. OTHER OPERATING INCOME**

	<b><u>Note</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
		<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
<b>Provisions reversed</b>			
- Provision for financing Murabaha and Istisna'a transactions	12	238,721	986,051
- Provision for Musharaka investment contracts	14	1,052,764	-
- Provision for Mudaraba investment contracts	16	216,629	1,572,043
- Provision for impairment of available for sales investments	18.1	599,630	63,717
- Other provision	27	<u>228,947</u>	<u>158,696</u>
		2,336,691	2,780,507
Net gain on disposal of property and equipment		7,302	661,443
Others		<u>79,880</u>	<u>4,122</u>
		<u>2,423,873</u>	<u>3,446,072</u>

**38. PROVISIONS CHARGED TO CONSOLIDATED INCOME STATEMENT**

	<b><u>Note</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
		<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Provision for financing Murabaha and Istisna'a transactions	12	3,073,944	80,775
Provision for Musharaka investment contracts	14	-	774,572
Provision for Mudaraba investment contracts	16	-	5,000
Provision for impairment of Ijarah Muntahia Bittamleek receivables	20.1	7,640	-
Provision for doubtful debt balances and other assets	22	750,387	349,679
Provision for Qard Hasan fund		383	-
Other provisions	27	<u>-</u>	<u>214,949</u>
		<u>3,832,354</u>	<u>1,424,975</u>



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**39. LOSS ON SALES INVESTMENTS (REALIZED)**

	<b>2015</b>	<b>2014</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Loss on sales of available-for-sale investments	3,636,809	-
Loss on sales of investment in real estate	65,916	1,256,063
Net loss on foreign Mudraba and Musharaka investment contracts	<u>108,987</u>	<u>-</u>
	<u><u>3,811,712</u></u>	<u><u>1,256,063</u></u>

**40. IMPAIRMENT ON INVESTMENT SECURITIES**

	<b>Note</b>	<b>2015</b>	<b>2014</b>
		<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Impairment on investment securities at fair value through income statement	18	615,022	-
Impairment on available-for-sale investments	18.1	<u>-</u>	<u>966,606</u>
		<u><u>615,022</u></u>	<u><u>966,606</u></u>

**41. STAFF COSTS**

	<b>2015</b>	<b>2014</b>
	<b><u>YR 000s</u></b>	<b><u>YR 000s</u></b>
Basic salaries	1,721,424	1,740,880
Bonuses and incentives	958,694	996,546
Contributions to social security	140,334	124,282
Others	<u>34,435</u>	<u>-</u>
	<u><u>2,854,887</u></u>	<u><u>2,861,708</u></u>

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**42. OTHER EXPENSES**

	<b><u>2015</u></b> <b><u>YR 000s</u></b>	<b><u>2014</u></b> <b><u>YR 000s</u></b>
Zakat	504,008	569,237
Rent	381,243	348,121
Subscription of deposit insurance corporation	380,103	387,303
Maintenance	268,515	217,649
Professional and consulting fees	246,810	232,157
Insurance	171,130	86,059
Cleaning	169,848	156,282
Transportation	161,540	354,280
Subscriptions	125,280	140,854
Advertising and publicity	114,158	222,470
Water and electricity	39,510	88,222
Training and studies	36,235	84,027
Stationery	34,424	68,291
Communication	23,551	31,760
Fuel and lubricants	14,762	32,532
Information technology expenses	9,110	35,493
Donations and charities	7,563	20,904
Government fees	5,871	20,733
Hospitality	1,907	4,657
Others	<u>528,204</u>	<u>867,832</u>
	<u><u>3,223,772</u></u>	<u><u>3,968,863</u></u>

**43. (LOSS) PER SHARE**

	<b><u>2015</u></b>	<b><u>2014</u></b>
Net (Loss) for the year (YR 000s)	( <u>3,198,694</u> )	( <u>1,019,445</u> )
Number of shares (thousand shares)	<u>20,000</u>	<u>20,000</u>
(Loss) per share (YR)	( <u><u>159.93</u></u> )	( <u><u>50.97</u></u> )

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**44. MATURITIES OF FINANCIAL ASSETS AND LIABILITIES**

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

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	<u>2014</u>				
	<u>Due within 3 months YR Millions</u>	<u>Due from 3 to 6 months YR Millions</u>	<u>Due from 6 months to one year YR Millions</u>	<u>Due more one year YR Millions</u>	<u>Total YR Millions</u>
<u>Assets</u>					
Cash on hand and reserve balances with CBY	51,484	-	-	-	51,484
Due from banks and financial institutions	52,498	-	-	-	52,498
Financing Murabaha and Istisna'a, transactions (net)	33,208	15,081	11,802	16,207	76,298
Musharaka investment contracts (net)	-	-	-	269	269
Mudaraba investment contracts (net)	685	125	-	41,832	42,642
Investment in Islamic Sukuk	105,318	-	-	-	105,318
Investment securities	-	-	-	23,547	23,547
Investment in real estate	-	-	-	146,336	146,336
Ijarah Muntahia Bittamleek receivables (net)	379	160	304	2,061	2,904
Qard Hasan (net)	<u>1</u>	<u>-</u>	<u>3</u>	<u>-</u>	<u>4</u>
	<u>243,573</u>	<u>15,366</u>	<u>12,109</u>	<u>230,252</u>	<u>501,300</u>
<u>Liabilities</u>					
Due to banks and financial institutions	551	-	-	-	551
Current accounts and other deposits	128,995	-	-	-	128,995
Equity of unrestricted investment and saving accounts' holders	<u>35,458</u>	<u>30,387</u>	<u>59,435</u>	<u>198,243</u>	<u>323,523</u>
	<u>165,004</u>	<u>30,387</u>	<u>59,435</u>	<u>198,243</u>	<u>453,069</u>
Net gap	<u>78,569</u>	<u>(15,021)</u>	<u>(47,326)</u>	<u>32,009</u>	<u>48,231</u>

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**TADHAMON INTERNATIONAL ISLAMIC BANK  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

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

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	2014					Total YR Millions
	Industrial YR Millions	Commercial YR Millions	Agriculture and Fishing YR Millions	Financial YR Millions	Individuals & Others YR Millions	
<b><u>Assets</u></b>						
Cash on hand and reserve balances with CBY	-	-	-	51,484	-	51,484
Due from banks and financial institutions	-	-	-	52,498	-	52,498
Financing Murabaha and Istisna'a transactions (net)	26,060	32,179	-	-	18,059	76,298
Musharaka investments contracts (net)	-	269	-	-	-	269
Mudaraba investments contracts (net)	-	42,586	-	-	56	42,642
Investment in Islamic Sukuk	-	-	-	105,318	-	105,318
Investment securities	-	-	-	23,547	-	23,547
Investments in real estate	-	146,336	-	-	-	146,336
Ijarah Muntahia Bittamleek receivables (net)	-	2,019	-	-	885	2,904
Qard Hasan (net)	-	-	-	-	4	4
<b><u>Liabilities</u></b>						
Due to banks and financial institutions	-	-	-	551	-	551
Current accounts and other deposits	1,432	7,489	-	-	120,074	128,995
Equity of unrestricted investment and saving accounts' holders	16	4,735	-	-	318,772	323,523
<b><u>Contingent liabilities and commitments (net)</u></b>						
Letters of guarantee	163	23,872	-	-	4,222	28,257
Letters of credit	9,149	9,222	-	-	545	18,916

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

	<b>2015</b>					
	<b>Republic of Yemen YR Millions</b>	<b>America YR Millions</b>	<b>Europe YR Millions</b>	<b>Asia YR Millions</b>	<b>Africa YR Millions</b>	<b>Total YR Millions</b>
<b><u>Assets</u></b>						
Cash on hand and reserve balances with CBY	44,902	-	-	-	-	44,902
Due from banks and financial institutions	83,374	137	16,689	7,554	564	108,318
Financing Murabaha and Istisna'a transactions (net)	35,089	-	-	-	-	35,089
Musharaka investment contracts (net)	-	-	-	-	-	-
Mudaraba investment contracts (net)	17,286	-	-	14,049	-	31,335
Investment in Islamic Sukuk	85,880	-	3,430	-	-	89,310
Investment securities	2,486	-	1,493	26,412	5,172	35,563
Investments in real estate	31,779	-	3,846	96,874	1,949	134,448
Ijarah Muntahia Bittamleek receivables (net)	16	-	-	-	-	16
Qard Hasan (net)	3	-	-	-	-	3
<b><u>Liabilities</u></b>						
Due to banks and financial institutions	159	-	-	1,455	403	2,017
Current accounts and other deposits	141,602	-	-	-	-	141,602
Equity of unrestricted investment and saving account holders	290,020	-	-	-	-	290,020
<b><u>Contingent liabilities and commitments (net)</u></b>						
Letters of guarantee	817	-	2,090	17,175	-	20,082
Letters of credit	-	328	683	3,142	43	4,196

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	<b>2014</b>					<b>Total YR Millions</b>
	<b>Republic of Yemen YR Millions</b>	<b>America YR Millions</b>	<b>Europe YR Millions</b>	<b>Asia YR Millions</b>	<b>Africa YR Millions</b>	
<b><u>Assets</u></b>						
Cash on hand and reserve balances with CBY	51,484	-	-	-	-	51,484
Due from banks and financial institutions	21,525	1,845	13,602	15,000	526	52,498
Financing Murabaha and Istisna'a transactions (net)	76,298	-	-	-	-	76,298
Musharaka investments contracts (net)	-	-	-	269	-	269
Mudaraba investments contracts (net)	28,182	-	438	14,022	-	42,642
Investment in Islamic Sukuk	101,880	-	3,438	-	-	105,318
Investment securities	3,637	128	1,598	13,276	4,908	23,547
Investments in real estate	19,217	788	5,268	118,312	2,751	146,336
Ijarah Muntahia Bittamleek receivables (net)	2,904	-	-	-	-	2,904
Qard Hasan (net)	4	-	-	-	-	4
<b><u>Liabilities</u></b>						
Due to banks and financial institutions	147	1	36	54	313	551
Current accounts and other deposits	128,995	-	-	-	-	128,995
Equity of unrestricted investment and saving accounts' holders	323,523	-	-	-	-	323,523
<b><u>Contingent liabilities and commitments (net)</u></b>						
Letters of guarantee	23,424	-	125	4,708	-	28,257
Letters of credit	-	2,153	5,405	10,994	364	18,916

**47. SIGNIFICANT FOREIGN CURRENCIES' POSITIONS**

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

	<b>2015</b>		<b>2014</b>	
	<b>Surplus (deficit) YR 000's</b>	<b>% of capital &amp; reserves</b>	<b>Surplus (deficit) YR 000's</b>	<b>% of capital &amp; reserves</b>
US Dollar	15,792,977	42.83 %	10,816,256	29.42 %
EURO	( 664,999)	( 1.80 %)	( 404,699)	( 1.10 %)
Saudi Riyals	1,302,434	3.53 %	12,134,293	33.01 %
Sterling Pound	( 245,688)	( 0.67 %)	5,538,551	15.07 %
Emirates Dirham	17,737,281	48.10 %	36,020,233	97.99 %
Other	156,747	0.43 %	8,374,458	22.78 %
Net surplus	<u>34,078,752</u>	<u>92.42 %</u>	<u>72,479,092</u>	<u>197.17 %</u>



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

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

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

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

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

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

	<b><u>2015</u></b> <b><u>YR Millions</u></b>	<b><u>2014</u></b> <b><u>YR Millions</u></b>
Financing Murabaha and Istisna'a transactions	2,877	8,890
Current, saving accounts and other deposits	143	194
Indirect financing	1,238	1,253
Income from financing Murabaha and Istisna'a transactions	256	436
Fees and commissions income	9	1,553
Wages, salaries and benefits	61	59

**49. TAX POSITION**

- Corporate and salaries taxes have been cleared up to the year 2006.
- The Bank has submitted the tax declaration for the year 2007 within the legal deadline. The Bank was notified with additional tax assessment amounted YR 89 million for profit tax. The Bank has appealed this assessment in tax court and the case is still in progress up to date. The Bank management believes that this additional assessment will not result in any additional liabilities.
- The Bank has submitted the tax declaration for the year 2008. The Bank was notified with additional assessment amounted to YR 885 million related to the application of the exemption on revenues collected on financing to projects established under the investment law. The Bank has appealed this assessment and the tax appeal committee has not issued any decision up to date. The Bank management believes that this additional assessment will not result in any additional liabilities.

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- The Bank has submitted the tax declarations for the years from 2009 up to 2014. Inspections for these years are currently under review by the Tax Authority. The Bank has not received any notification of any other additional assessment for these years up to date.
- The Bank has paid the salary tax for the years from 2009 till of the year 2015 based on monthly declarations and the Bank has not received any notification of any other additional assessment for these years.

**50. ZAKAT POSITION**

- The Bank submits its Zakat declarations annually and remits the amount due based on the declaration.
- The Bank has paid Zakat until the end of the year 2014 according to the Zakat declaration. No additional assessment notification was issued by the Zakat Department.

**51. CONTINGENT LIABILITIES**

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

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

**52. COMPARATIVE FIGURES**

*a. Consolidated financial statements of the Group*

Certain comparative figures have been restated due to the adoption of the amendments to FAS No. 23 (refer to Note 3). Other than those mentioned in Note 3, the reclassifications did not affect equity or accumulated loss.

*b. Separate financial statements of the Bank*

Since 2010, the management has recognized the investment in subsidiaries under the equity method of accounting and that is through carried the investment in the statement of financial position at cost plus post acquisition changes in the Bank's share of net assets of the subsidiaries.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

As stated above, the investment in subsidiaries in the separate financial statements of the Bank are measured at cost as at December 31, 2015 with the restatement of the financial statement of the Bank for the year ended December 31, 2014 (comparative year) as follows:

	<b>As previously reported YR 000</b>	<b>Adjustments on balance YR 000</b>	<b>Balance after adjustments YR 000</b>	<b>Equity method impact YR 000</b>	<b>Balance after restated YR 000</b>
Investment in subsidiaries	8,726,250	( 5,709,180)	3,017,070	( 721,623)	2,295,447
Retained earnings	1,001,930	-	1,001,930	( 721,623)	280,307

**53. OPERATING ENVIRONMENT IN YEMEN**

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

The final resolution and the effects of the above events are difficult to predict due to the events' continuation at the date of issuing the consolidated financial statements for the year 2015. Management confirms it is taking appropriate measures to support the sustainability of the Bank's business in the current economical circumstances that could affect the consolidated financial statements for the year ended on December 31, 2015, management estimates of the fair values of the assets and liabilities, and the budget plan for the year 2016.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

**1. STATEMENT OF FINANCIAL POSITION  
AS AT DECEMBER 31, 2015**

	<b>2015</b>	<b>2014</b>
	<b>YR 000s</b>	<b>(Restated) YR 000s</b>
<b>Assets</b>		
Cash on hand and reserve balances with Central Bank of Yemen (CBY)	44,901,774	51,483,483
Due from banks and financial institutions	99,590,562	46,505,032
Financing Murabaha and Istisna'a transactions (net)	35,088,898	76,298,191
Musharaka investment contracts (net)	-	268,613
Mudaraba investment contracts (net)	31,335,303	42,641,622
Investment in Islamic Sukuk	88,028,900	105,318,240
Investment securities	2,499,569	22,825,543
Investment in real estate	112,801,892	125,900,881
Ijarah Muntahia Bittamleek receivables (net)	15,726	42,756
Qard Hasan (net)	2,794	4,421
Investment in subsidiaries	2,439,651	2,295,447
Debit balances and other assets (net)	78,500,702	36,538,537
Property and equipment (net)	<u>5,350,156</u>	<u>5,782,164</u>
Total assets	<u>500,555,927</u>	<u>515,904,930</u>
<b>Liabilities, investment accounts' holders and equity</b>		
<b>Liabilities</b>		
Due to banks and financial institutions	2,017,420	550,567
Current accounts and other deposits	142,797,700	128,995,204
Credit balances and other liabilities	5,153,623	5,740,829
Other provisions	<u>505,779</u>	<u>786,824</u>
Total liabilities	150,474,522	136,073,424
Equity of unrestricted investment and saving accounts' holders	<u>290,020,395</u>	<u>323,522,776</u>
Total liabilities and investment accounts' holders	<u>440,494,917</u>	<u>459,596,200</u>
<b>Equity</b>		
Share capital	20,000,000	20,000,000
Statutory reserve	16,499,262	16,499,262
General reserve	261,246	261,246
Other reserve	25,446,380	19,267,915
Accumulated (loss) earnings (Restated note 52)	( 2,145,878)	<u>280,307</u>
Total equity	<u>60,061,010</u>	<u>56,308,730</u>
Total liabilities, investment accounts' holders and equity	<u>500,555,927</u>	<u>515,904,930</u>
Contingent liabilities and commitments (net)	<u>24,278,088</u>	<u>47,172,830</u>

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

**2. INCOME STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<b><u>2015</u></b> <b><u>YR 000s</u></b>	<b><u>2014</u></b> <b><u>YR 000s</u></b>
Income from financing Murabaha and Istisna'a transactions	4,903,238	8,463,287
Income from other joint investments	<u>12,437,157</u>	<u>11,620,553</u>
	17,340,395	20,083,840
Less: Return on unrestricted investments and saving accounts' holders	<u>( 12,696,092)</u>	<u>( 15,223,657)</u>
Bank's share from the income on Murabaha, Musharaka and joint investments	<u>4,644,303</u>	<u>4,860,183</u>
Fees and commission income	1,553,621	1,713,139
Less: Fees and commission expenses	<u>( 211,631)</u>	<u>( 357,856)</u>
Net fees and commission income	<u>1,341,990</u>	<u>1,355,283</u>
	5,986,293	6,215,466
Gains on foreign currency transactions	4,049,216	14,893
Other operating income	<u>2,351,277</u>	<u>3,298,821</u>
Total operating income	12,386,786	9,529,180
Less:		
Provisions	<u>( 3,832,354)</u>	<u>( 1,623,531)</u>
Loss on sale of investments (realized)	<u>( 3,811,712)</u>	<u>( 1,256,063)</u>
Impairment on investment in real estate	<u>( 1,360,329)</u>	<u>( 594,981)</u>
Staff costs	<u>( 2,293,463)</u>	<u>( 2,207,830)</u>
Depreciation of property and equipment	<u>( 714,127)</u>	<u>( 703,035)</u>
Other expenses	<u>( 2,800,986)</u>	<u>( 3,262,268)</u>
Net (Loss) for the year before tax	<u>( 2,426,185)</u>	<u>( 118,528)</u>
Income tax for the year	<u>-</u>	<u>-</u>
Net (Loss) for the year after income tax	<u>( 2,426,185)</u>	<u>( 118,528)</u>
(Loss) per share	<u>( YR 121.31)</u>	<u>( YR 5.92)</u>