Grant Thornton
An instinct for growth™

Financial Statements and Independent Auditor's Report

Shamil Bank of Yemen and Bahrain

(Yemeni Closed Joint Stock Company)

December 31, 2018

مصرف اليمن البحرين الشامل (بنك إسلامي)
Shamil Bank of Yemen & Bahrain

Contents

Grant Thornton
An instinct for growth™

Independent Auditor's Report

To: The Shareholders' of
Shamil Bank of Yemen and Bahrain
(Yemeni Closed Joint Stock Company)
Sana'a - Republic of Yemen

Audit .Tax . Advisory
Grant Thornton Yemen
Algeria St.
Sana'a - Republic of Yemen
P.O.Box: 18045
Tel. + 967 1 465 024 / 5
Fax. + 967 1 465 026
www.gtyemen.com

Report on the Financial Statements

We have audited the accompanying financial statements of **Shamil Bank of Yemen and Bahrain (Yemeni Joint Stock Company) (the Bank)**, which comprise the statement of financial position as at December 31, 2018 and the income statement, statement of changes in equity, statement of cash flows and statement of sources and uses of Qard Hasan fund for the year then ended, and a summary of significant accounting policies and other explanatory information (1-50). The preparation of these financial statements and the Bank'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 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 financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation.

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

Basis for Qualified Opinion

As explained in Note 15.1 to the financial statements, the Bank's management has neither determined nor recognized impairment losses for some available - for sale investments amounting to YR 526,109,894 in accordance with the instructions of the Central Bank of Yemen. Hence, net profit for the year is overstated by YR 526,109,894 and equity as at December 31, 2018 is also overstated by the same amount.

Qualified Opinion

In our opinion, except for the effects on the financial statements of the matter referred to in the preceding paragraph, the financial statements give a true and fair view, in all material respects, the financial position of Shamil Bank of Yemen and Bahrain (the Bank) as at December 31, 2018, and the result of its operations, its cash flows, its changes in equity and sources and uses of Qard Hasan fund 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 of the Bank and instructions issued by Central Bank of Yemen.

Grant Thornton
An instinct for growth

Emphasis of Matters

1. We draw attention to Note (49) to the financial statements related to the political crisis, economic situation and current security events in the Republic of Yemen, which indicate to the existence of an uncertainty about the improvement of the political situation that may cast significant doubts about the Bank's ability to continue as a going concern in case of the continuation of these circumstances. Our opinion is not modified in respect of this matter.
2. We draw attention to Note (2.7) of paragraph (b) of the notes to the financial statements related to the Bank's exposure to foreign exchange risk and its impact on significant foreign exchange positions. Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

Except the matter described in the basis for qualified opinion paragraph, we have obtained from management the information and clarifications that we deemed necessary for our audit. The Bank keeps proper books of account, and the accompanying financial statements are in agreement with these books. Furthermore, we are not aware of any violations of Yemeni Commercial Companies Law No. (22) of 1997 and its amendments, or the Bank's Articles of Association, or Banking Law No. (38) of 1998, or instructions issued by Central Bank of Yemen in which might have a material impact to the Bank's business or its financial position, except for the Bank's violation of circular No. (6) of 1998 relating to the important foreign currency centers mentioned in note (45) of the notes to the financial statements.

Grant Thornton Yemen

جرانت ثورنتون يمن
Grant Thornton Yemen

Ramzi S. Al-Ariqi

Sana'a - Republic of Yemen
April 30, 2019

Statement of financial position

	Notes	Dec. 31, 2018 YR 000s	Dec. 31, 2017 YR 000s
Assets			
Cash on hand and reserve balances with Central Bank of Yemen	9	**11,702,502**	6,852,041
Due from banks and financial institutions	10	**28,272,313**	29,923,398
Financing of Murabaha and Istisna'a transactions	11	**2,914,273**	3,852,734
Ijarah Muntahia Bittamleck	13	**411,681**	767,767
Investment securities	14	**2,337,566**	3,314,241
Investment in real estate	16	**2,462,603**	2,448,962
Qard Hasan	17	-	3,365,414
Investments in subsidiaries	18	**2,301,641**	2,601,641
Debit balances and other assets	19	**2,914,425**	4,087,568
Property and equipment	21	**1,780,547**	1,669,371
Total assets		**55,097,551**	**58,883,137**
Liabilities, investment accounts' holders and equity			
Liabilities			
Due to banks and financial institutions	22	**4,025,601**	9,256,919
Current accounts and other deposits	23	**30,138,975**	28,052,067
Credit balances and other liabilities	24	**2,240,736**	2,122,785
Other provisions	25	**71,179**	111,286
Total liabilities		**36,476,491**	**39,543,057**
Equity of unrestricted investment and saving accounts holders	26	**12,359,681**	**13,086,953**
Equity			
Share capital	27	**6,000,000**	6,000,000
Statutory reserve	28	**209,571**	208,333
Fair value reserve	29	**43,313**	43,313
Retained earnings		**8,495**	1,481
Total equity		**6,261,379**	**6,253,127**
Total liabilities, investments accounts' holders and equity		**55,097,551**	**58,883,137**
Total contingent liabilities and commitments	30	**7,151,851**	**9,089,412**

Finance Manager

Mr. Khalid A. Al-Ward

General Manager

Mr. Saeed Mohammed Bazara

Chairman

Mr. Ahmed Abubakr Bazara

Shamil Bank of Yemen & Bahrain Y.S.C.C. (Islamic Bank) H.O.- Sana'a

See accompanying notes to the financial statements

Income statement

For the year ended December 31

	Notes	2018 YR 000s	2017 YR 000s
Income from financing Murabaha	31	**195,631**	341,826
Income from other joint investments	32	**445,530**	575,616
		641,161	**917,442**
Less: Return on unrestricted investments and saving accounts' holders	33	**(280,433)**	(319,350)
Bank's share from the income on Murabaha, Musharaka and Investments		**360,728**	**598,092**
Fee and commission income	34	**498,834**	511,036
Less: Fee and commissions expenses		**(36,995)**	(146,776)
Net fee and commission income		**461,839**	**364,260**
Gains on foreign currency transaction	35	**2,770,142**	2,000,286
Other operating income	36	**72,918**	91,183
Operating income		**3,665,627**	**3,053,821**
Less:			
Loss on investment in foreign deposits	37	-	(558,033)
Provisions	38	**(1,611,260)**	(745,083)
Staff costs	39	**(817,195)**	(753,838)
Depreciation of property and equipment	21	**(130,684)**	(120,576)
Other expenses	40	**(1,095,488)**	(875,287)
Net profit for the year before tax		**11,000**	**1,004**
Less: Income tax for the year		**(2,748)**	(201)
Net profit for the year after income tax		**8,252**	**803**
Earnings per share	41	**1.37**	**0.13**

Finance Manager — Mr. Khalid A. Al-Ward

General Manager — Mr. Saeed Mohammed Bazara

Chairman — Mr. Ahmed Abubakr Bazara

Shamil Bank of Yemen & Bahrain (Islamic Bank) H.O. Sana'a

Statement of changes in equity

For the year ended December 31

	Share Capital YR 000s	Statutory Reserve YR 000s	Fair Value Reserve YR 000s	Retained Earnings YR 000s	Total YR 000s
Balance at January 1, 2018	**6,000,000**	**208,333**	**43,313**	**1,481**	**6,253,127**
Net profit for the year	-	-	-	8,252	8,252
Transferred to statutory reserve	-	1,238	-	(1,238)	-
Balance at December 31, 2018	**6,000,000**	**209,571**	**43,313**	**8,495**	**6,261,379**
Balance at January 1, 2017	**6,000,000**	**208,213**	**43,313**	**798**	**6,252,324**
Net profit for the year	-	-	-	803	803
Transferred to statutory reserve	-	120	-	(120)	-
Balance at December 31, 2017	**6,000,000**	**208,333**	**43,313**	**1,481**	**6,253,127**

Finance Manager

Mr. Khalid A. Al-Ward

General Manager

Mr. Saeed Mohammed Bazara

Chairman

Mr. Ahmed Abubakr Bazara

Statement of cash flows

For the year ended December 31

	Notes	2018 YR 000s	2017 YR 000s
Cash flows from operating activities			
Net profit for the year before tax		**11,000**	1,004
Adjustments for net profit of the year with cash flows from operating activity			
Depreciation of property and equipment	21	**130,684**	120,576
Provisions provided during the year	38	**1,611,260**	745,083
Retranslation differences of provisions in foreign currencies	20	**-**	46,138
Provisions used		**(122,504)**	-
Provisions reserved	36	**(40,107)**	-
Gain on sale of property and equipment		**(1,495)**	3,387
Return of unrestricted investment and saving accounts' holders	33	**280,433**	319,350
Net profits before changes in working capital		**1,869,271**	**1,235,538**
Changes in:			
Reserve balances with CBY		**(358,690)**	(46,824)
Financing Murabaha and Istisna'a transactions		**100,232**	1,674,200
Qard Hasan		**3,365,414**	(1,565,414)
Debit balance and other assets		**522,616**	645,119
Current accounts and other deposits		**2,086,908**	6,550,486
Credit balances and other liabilities		**115,203**	124,264
Net cash flows from operating activities (1)		**7,700,954**	**8,617,369**
Cash flows from investing activities			
Decrease in investments in subsidiaries		**300,000**	-
Decrease in investment securities		**976,675**	3,734,000
Decrease (increase) in Ijarah Muntahia Bittamleek		**356,086**	(447,605)
Increase in investment in real estate		**(13,641)**	(854,171)
Decrease in investment deposits due over 3 months		**-**	1,751,750
Payments to acquisition of property and equipment	21	**(272,496)**	(449,681)
Proceeds from sale of property and equipment		**32,131**	3,098
Net cash flows from investing activities (2)		**1,378,755**	**3,737,391**
Cash flows from financing activities			
Decrease in equity of unrestricted investment and saving accounts' holders		**(727,272)**	(2,063,786)
Due to banks and financial institutions		**(5,231,318)**	4,231,538
Dividends paid to depositors		**(280,433)**	(319,350)
Net cash flows (used in) from financing activities (3)		**(6,239,023)**	**1,848,402**

Finance Manager	General Manager	Chairman
Mr. Khalid A. Al-Ward	Mr. Saeed Mohammed Bazara	Mr. Ahmed Abubakr Bazara

H.O.- Sana'a (Islamic Bank) Shamil Bank of Yemen & Bahrain Y.S.C.C

See accompanying notes to the financial statements

Statement of cash flows (continued)

For the year ended December 31

	Notes	2018 YR 000s	2017 YR 000s
Net change in cash and cash equivalents (1+2+3)		**2,840,686**	14,203,162
Cash and cash equivalents at the beginning of the year		**33,042,491**	18,839,329
Cash and cash equivalents at the end of the year		**35,883,177**	**33,042,491**
Cash and cash equivalents consist of:			
Cash on hand and reserve balances with Central Bank of Yemen	**9**	**11,702,502**	6,852,041
Due from banks and financial institutions	**10**	**28,272,313**	29,923,398
		39,974,815	**36,775,439**
Less: Reserve balances with CBY		**(3,541,088)**	(3,182,398)
Less: Investment deposits maturing more than 3 months		**(550,550)**	(550,550)
		35,883,177	**33,042,491**

Finance Manager

Mr. Khalid A. Al-Ward

General Manager

Mr. Saeed Mohammed Bazara

Chairman

Mr. Ahmed Abubakr Bazara

Statement of sources and uses of Al-Qard Al-Hasan fund

For the year ended December 31

	Notes	2018 YR 000s	2017 YR 000s
Balance at beginning of the year as represented by outstanding utilized loans		**3,467,266**	1,901,852
Add: Sources of fund			
Transferred from customers' current accounts		-	-
Loans to banks and financial institutions		-	1,565,414
		3,467,266	**3,467,266**
Less: Uses of fund			
Paid to customers' current accounts		**(3,365,414)**	-
Balance at the end of the year		**101,852**	**3,467,266**
Less: Provision for Al-Qard Al-Hasan fund		**(101,852)**	(101,852)
		-	**3,365,414**

The following shows the movement of provision for Al-Qard Al-Hasan fund:

	Notes	2018 YR 000s	2017 YR 000s
Balance at the beginning of the year		**101,852**	101,852
Add: Provided during the year	38	-	-
Balance at the end of the year		**101,852**	**101,852**

Finance Manager	General Manager	Chairman
Mr. Khalid A. Al-Ward	Mr. Saeed Mohammed Bazara	Mr. Ahmed Abubakr Bazara

Notes to the Financial Statements

For the year ended December 31, 2017

1. Background information

Shamil Bank of Yemen and Bahrain (Closed Joint Stock Company) was established on February 17, 2002. The Bank exercises its banking activities in the Republic of Yemen through its Head Office located in Sana'a city El.siteen St, and its branches located in Sana'a, (Sho'oup, Taiz St. and Haddah) Aden, Sheikh Othman, Mukalla, Hodeidah, ,Taiz, Sayun and Ma'rib. The bank performs its services in conformity with Islamic Sharia.

The Bank is involved in the following business activities:

- Opening current accounts;
- Accepting unrestricted investment accounts, and commingling the same with those of the bank and investing them in accordance with Islamic Shari'a;
- Managing the investment of other parties' funds as an agent for a fixed fee or as a Mudarib and any other banking activities not contravening with the provisions of the Islamic Shari'a;
- Industrial, commercial and agricultural business activities, etc. either directly or through companies the Bank may establish, or in which the Bank may acquire part of its shares;
- Leasing and acquiring lands, constructing buildings and renting out thereof;
- Foreign currencies exchange deals.

The financial statements for the Bank were approved by the Board of Directors on April 30, 2019, and a Board resolution was issued proposing the approval of the financial statements by the General Assembly of the shareholders.

2. Basis of preparation and measurement the financial statements

2.1 Statement of compliance

The 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).

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for non-trading investments classified as available-for-sale investments as well as real estate investment are measured at fair value.

2.3 Functional and presentation currency

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

2.4 Significant accounting judgments and estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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 financial statements are described in notes 11, 13, 15, 19, 21, 23 and 25.

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

a. A classification of investments

In the process of applying the Bank'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 income statement. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification (refer Note 3.3).

b. Provision for impairment of assets

The Bank exercises judgment in the estimation of provision for impertinent of 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 Bank 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 impertinent exists. In addition, the Bank 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.

Valuation of unquoted private equity and real estate investments is normally based on one of the following:

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

The Bank determines valuation techniques on a periodic basis and examines their validity either using current observable market transaction prices for the same performance or other observable market data.

d. Useful lives of property and equipment

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

e. Depreciation rates of Ijarah Muntahia Bittamleek

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

3. Significant accountrng policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied by the Bank 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, 2018

There are no AAOIFI accounting standards or interpretations that are effective for the first time for the financial year beginning on or after January 1, 2018 that would be expected to have a material impact on the bank.

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

Financial Accounting Standard No. (28) "Murabaha and other deferred payment sales"

This standard defines the principles of accounting and financial reporting, Murabaha requirements, deferred payment sales and the various elements of such transactions. This standard replaces the pre-applied Financial Accounting Standard 2 on Murabaha and Murabaha on Purchase Order and Financial Accounting Standard 20 on 'Deferred Payment Sale'. This Standard will become mandatory on or after 1 January 2019, with early adoption permitted.

Financial Accounting Standard No. (30) "Impairment, credit losses and overburdened obligations"

In 2017, AAOIFI has issued FAS No. (30) on "Impairment, Credit Losses and Overburdened Obligations" and will replace FAS No. (11) "Provisions and Reserves" and parts of FAS No. (25) "Investment in Sukuk, Stocks, and similar instruments". The objective of this standard is to establish the principles of accounting and financial reporting for impairment and credit losses on various types of Islamic finance, investment, certain other assets of Islamic Financial Institutions, and provisions for high risk liabilities. In particular, it helps users of financial statements to fairly assess the amounts, timing and uncertainties regarding future cash flows associated with such assets and operations.

FAS No. (30) classifies assets into three categories based on the nature of risks involved (i.e. credit risk and other risks) and prescribes three approaches for assessing losses for each of these categories of assets:

1. Credit losses approach
2. Net Realizable Value approach ("NRV")
3. Impairment approach.

For the purpose of the standard, the assets shall be categorized, as under:

- Assets subject to credit risk (subject to credit losses approach):
  - Receivables; and
  - Off-balance sheet exposures.
- Inventories (subject to net realizable value approach)
- Financing and other investment assets that subject to risks other than credit risk (subject to impairment approach), excluding inventories.

Credit losses approach for receivables and off balance sheet exposures uses a dual measurement approach, under which the loss allowance is measured as either a 12-month expected credit loss or a lifetime expected credit loss. The standard shall be effective from the financial periods beginning on or after January 1, 2020. Early adoption is permitted.

Financial Accounting Standard No. (31) – "Investment Agency (Al-Wakala Bi Al-lstithmar)"

The objective of this standard is to establish the accounting and financial reporting policies for the investment agency instruments (Al-Wakala Bi Al-lstithmar) and related assets and liabilities, where applicable, for Islamic financial institutions from both perspectives as principal (investor) and agent. The standard will be applied to all Wakala investment contracts entered into by Islamic Financial Institutions, either as principal or agent. The standard affects the presentation of income and expenses, including the variable consideration, of agency arrangements. The Bank is currently assessing the impact of the application of this standard. The standard will become effective for financial years beginning on or after January 1, 2020, with early adoption permitted.

Financial Accounting Standard No. (33) – "Investment in Sukuk, Shares and Similar Instruments"

The objective of this standard is to set out principles for the classification, recognition, measurement, presentation and disclosure of investment in Sukuk, shares and other similar instruments made by Islamic Financial Institutions. This standard shall apply to an institution's investment, whether in the form of in debt instruments or equity. This standard replaces IAS 25 Investment in Sukuk, Equity and Similar Instruments, and provides revised guidance for the classification and measurement of investments, in line with international practice. Classification classes are now based on business model tests. Reclassifications will only be allowed when the business model is changed, and will be applied retroactively. The adoption of this standard is not expected to have any material impact on the Bank. The Bank is currently assessing the impact of the application of this standard. The standard will become effective for financial years beginning on or after January 1, 2020, with early adoption permitted.

Financial Accounting Standard No. (35) – "Risk Reserves"

The standard will be applied to the risk reserves created by Islamic Financial Institutions (other than Takaful Islamic Insurance Companies), to reduce the risks of credit, market, equity investments, liquidity, and the rate of return or trade risk faced by stakeholders (principally investors who share profits and bear the losses). Operational risk, on the other hand, is the responsibility of the Islamic Financial Institutions itself, so this standard will not be applied to any risk reserve established to reduce operational risk. The standard is effective for financial years beginning on or after January 1, 2021. Early adoption is permitted only if Islamic financial institutions decide to apply IFRS 30 Impairment, Losses and Fiduciary Liabilities.

3.1 Foreign currency transactions

a. In preparing the financial statements of the Bank, transactions in currencies other than the Bank's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Translation gain or losses on non-monetary items carried at fair value are included in owner's equity as part of fair value adjustment. Non-monetary items that are measured in terms of historical costs in a foreign currency are not retranslated. Exchange differences on monetary items are recognized in the income statement in the period in which they arise except exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to returns costs on those foreign currency borrowings.

b. The Bank does not engage in forward contracts to meet its obligations in foreign currencies, nor does it engage in foreign exchange contracts to cover the risk of settlement of future liabilities in foreign currencies, or its customers' need to meet their obligations in foreign currencies resulting from their transactions through the Bank.

3.2 Financial contracts

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

- **<u>Placements with and from financial institutions, non-financial institutions and individuals</u>**

  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.

- **<u>Sukuk</u>**

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

- **<u>Murabaha receivables</u>**

  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 Bank 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.

- **<u>Istisna'a</u>**

  Istisna'a is an agreement between the Bank and a customer whereby the Bank 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 deploying 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 Bank.

- **Musharaka**

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

- **Ijarah Muntahia Bittamleek**

Ijarah (Muntahia Bittamleek) is an agreement whereby the Bank (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 Bank (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 Bank (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 Bank segregates its investment securities into debt-type instruments and equity-type instruments. Debt type instruments are investments that have terms that provide fixed or determinable payments of profits and capital. 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.

Frist: Debt-type instruments

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 includes 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.

Second: Equity-type investments

Investments in equity type instruments are classified in the following categories:

1) At fair value through income statement (FVTTS) 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'.

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

b. Recognition and de-recognition

Investment securities are recognized at the trade date i.e. the date that the Bank contracts to purchase or sell the asset, or at the date that the Bank 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 when the Bank transfers 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 FVTlS 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 FVTTS 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

- **Amortized cost measurement**

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus capital repayments method, 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 uncollectible. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

- **Fair value measurement**

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

The Bank 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 Investments in subsidiaries

Investments in subsidiaries (in the separate financial statements of the Bank), are recorded at the cost less any impairment in their values. Impairment loss is charged to the income statement.

3.5 Impairment of financial assets

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of financing facility or advance by the Bank on terms that the Bank 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 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 lstisna'a contracts. In order to comply with the requirements of the Central Bank of Yemen, provision is provided for specific debts of Murabaha, Istisna'a and contingent liabilities, in addition to a percentage for general risk calculated on the total of other Murabaha, Istisna'a and contingent liabilities after deducting balances secured by deposits and banks' guarantees issued by foreign worthy banks. Provision is determined based on periodical comprehensive reviews of the Murabaha, lstisna'a and contingent liabilities and made in accordance with the following minimum rates:

Performing debts including watch list (due within 90 days)	2%
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 Bank and the customer or partner. Accordingly, any differences between this value and the book value are recorded as profits or losses in the income statement.

In order to comply with the requirements of CBY, 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.

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%
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 Bank ownership as a repayment of debts**

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

3.6 Revenue recognition

a. Financing Murabaha and Istisna'a transactions

- Profits on Murabaha and lstisna'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 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 profits relating to non-performing Murabaha contracts in the income statement.

b. Investments in Mudaraba and Musharaka contracts

- Investments on Mudaraba and Musharaka contracts, which are initiated and terminated during the financial year, are recorded in the income statement at the disposing date of Mudaraba and Musharaka contracts.
- Investments Profit fits 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. Investment in subsidiaries

Revenues of investments in subsidiaries are recognized at the separate financial statements when the Bank's right to receive the dividend is established.

e. Ijarah Muntahia Bittamleek

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

f. Fee and commission income

Fee and commission income are integral to the effective profit rate on a financial asset carried at amortized cost and included in the measurement of the effective profit rate of the financial asset.

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

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

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

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 Bank 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 income statement.

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

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

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 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 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 life of each component of an item of property and equipment.

The estimated useful lives are as follows:

Description	Estimated Useful Lives
Buildings	40 years
Leasehold improvements on buildings	10 years or the term whichever is lesser
Machinery and equipment	4-10 years
Motor and vehicles	5 years
Furniture and fixtures	10 years
Computer equipment	5 years

It is reviewed annually by the management of the Bank in both the depreciation method and estimated useful life as well as the estimated values as scrap at the estimated useful life of the asset (if any).

3.9 Impairment of non-financial assets

The carrying amounts are reviewed at each reporting date for indication of impairment. If 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 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 Bank is a party, are presented off 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 financial statements date.

3.11 Cash and cash equivalents

For the purpose of preparing the 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.

3.13 End of service benefits

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 income statement.

The provisions of social security law in Republic of Yemen are applied to all employees of the Bank concerning the end of service benefits.

3.14 Offsetting

Financial assets and financial liabilities can only be offset with the net amount being reported in the 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 income statement on a straight-line basis over the term of the relevant lease.

3.16 Earnings per share

The basic earnings per share (EPS) is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the share number or the weighted average number of ordinary shares outstanding during the period.

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

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 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 statements of financial position date.

3.19 Revenue prohibited by Shari'a and principles

The Bank records revenues in violation of Shari'a rules and principles, under "credit balances and other liabilities". 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 Bank. The transactions are measured at the cash equivalent amount received by the Bank 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 Bank in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorizes the Bank 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 Centarl Bank of Yemen

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

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

7. Financial instruments and related risk management

7.1 Financial instruments

a. The Bank's financial instruments are represented in financial assets and liabilities. The financial assets include cash balances, due from banks, financing Murabaha and lstisna'a transactions, Mudaraba, Musharaka, investment in securities, Ijarah Muntahia Bittamleek, and other assets. The financial liabilities include due to Banks and financial institutions, customers' current accounts and 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 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 Bank 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.

As at December 31, 2018, the fair values for available-for-sale investments comprise YR 1,337,566 thousand (YR 1,314,241 thousand as at December 31, 2017) under the level (3) category. There were no investments qualifying under the level (1) and level (2) of the fair value disclosures.

During the year ended December 31, 2018 as well as the year ended December 31, 2017 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 Bank'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.

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

At December 31, 2018	Available-For-Sale YR 000s	Other Amortized Cost YR 000s	Total Carrying Amount YR 000s	Fair Value YR 000s
Financial assets				
Cash on hand and reserve balances with CBY	-	11,702,502	11,702,502	11,702,502
Due from banks and financial institutions	-	28,272,313	28,272,313	28,272,313
Financing Murabaha and Istisna'a transactions	-	2,914,273	2,914,273	2,914,273
Ijarah Muntahia Bittamleek	-	411,681	411,681	411,681
Investment securities	2,000,000	337,566	2,337,566	2,337,566
	2,000,000	**43,638,335**	**45,638,335**	**45,638,335**
Financial liabilities				
Due to banks and financial institutions	-	4,025,601	4,025,601	4,025,601
Current accounts and other deposits	-	30,138,975	30,138,975	30,138,975
Equity of unrestricted investments and saving accounts' holders	-	12,359,681	12,359,681	12,359,681
	-	**46,524,257**	**46,524,257**	**46,524,257**

At December 31, 2017	Available-For-Sale YR 000s	Other Amortized Cost YR 000s	Total Carrying Amount YR 000s	Fair Value YR 000s
Financial assets				
Cash on hand and reserve balances with CBY	-	6,852,041	6,852,041	6,852,041
Due from banks and financial institutions	-	29,923,398	29,923,398	29,923,398
Financing Murabaha and Istisna'a transactions	-	3,852,734	3,852,734	3,852,734
Ijarah Muntahia Bittamleek	-	767,767	767,767	767,767
Investment securities	2,000,000	1,314,241	3,314,241	3,314,241
	2,000,000	**42,710,181**	**44,710,181**	**44,710,181**
Financial liabilities				
Due to banks and financial institutions	-	9,256,919	9,256,919	9,256,919
Current accounts and other deposits	-	28,052,067	28,052,067	28,052,067
Equity of unrestricted investments and saving accounts' holders	-	13,086,953	13,086,953	13,086,953
	-	**50,395,939**	**50,395,939**	**50,395,939**

7.2 Risk management of financial instruments

Risk management framework

Risk is inherent in the Bank'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 Bank's continuing profitability and each individual within the Bank 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 Bank.
- **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 Bank'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 of the Bank. 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 Bank, the measurement system of risk assessment and relating these to the Bank's capital, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.
- **Shari'a Supervisory Board:** The Bank's Shari'a Supervisory Board is entrusted with the responsibility to ensure the Bank's adherence to Sahri'a rules and principle in its transactions and activities.

Risk measurement

Monitoring and controlling risks are primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

Information compiled from all businesses is examined and processed in order to analyse, control and identify early risks.

The Bank 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 and 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.

Management of credit risk

The Bank 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.

Grade	Classification	Criteria
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 of the Bank based on the internal credit ratings is as follows (excluding cash secured loans and advances):

Grade	Classification	2018 YR 000s	2017 YR 000s
1 - 2	Performing and watch list	3,130,698	4,379,598

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).

	2018 YR 000s	2017 YR 000s
Cash on hand and reserve balances CBY (excluding cash on hand and in ATM)	3,541,088	3,182,398
Due from banks and financial institutions	28,272,313	29,923,398
Financing Murabaha and Istisna'a transactions	2,914,273	3,852,734
Ijarah Muntahia Bittamleek	411,681	767,767
Investment securities	2,337,566	3,314,241
Investment in real estate	2,462,603	2,448,962
Qard Al-Hasan, net	-	3,365,414
Investment in subsidiaries	2,301,641	2,601,641
Debit balances and other assets after deducting the advance payments	2,780,252	3,843,247
	45,021,417	**53,299,802**
Contingent liabilities and commitments	9,243,725	14,644,648
Total credit exposure	**54,265,142**	**67,944,450**

The following is an analysis for financial assets and contingent liabilities and commitments according to sectors before and after deduction any collateral (concentration maximum of credit risk according to sector):

	2018		2017	
	Gross Maximum Exposure YR 000s	Net Maximum Exposure YR 000s	Gross Maximum Exposure YR 000s	Net Maximum Exposure YR 000s
Governmental	23,517,514	-	17,889,500	-
Financial	8,753,612	8,753,612	15,115,089	15,115,089
Industrial	1,395,053	1,395,053	4,762,115	4,762,115
Trading	2,643,304	2,643,304	4,743,146	4,743,146
Constructions	583,773	583,773	3,326,719	3,326,719
Agricultural and fishing	1,028,508	1,028,508	125,464	125,464
Other	7,099,653	7,099,653	7,337,769	7,337,769
	45,021,417	**21,503,903**	**53,299,802**	**35,410,302**
Contingent liabilities and commitments	9,243,725	7,151,851	14,644,648	10,067,788
	54,265,142	**28,655,754**	**67,944,450**	**45,478,090**

The Bank manages concentration of risk by distributing the portfolio and contingent liabilities and commitments over diversified economic sectors and geographical locations. Note No. (43) Shows the distribution of assets, liabilities, contingent liabilities and commitment based on economic sectors and Note No. (44) Shows the distribution of financial instruments based on geographical locations at the financial statements date.

b. Liquidity risk

Liquidity risk arises from cash flows generated by assets and liabilities, not being matched 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.

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

The 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, 2018 was 72% (as at December 31, 2017 was 60%).

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

	December 31, 2018				
	Within 3 Months YR 000s	From 3 to 6 Months YR 000s	From 6 Months to 1 Year YR 000s	Over 1 Year YR 000s	Total YR 000s
Liabilities					
Due to banks and financial institutions	4,025,601	-	-	-	4,025,601
Current accounts and other deposits	30,138,975	-	-	-	30,138,975
Equity of unrestricted investments and saving accounts' holders	4,530,672	188,157	-	7,640,852	12,359,681
Credit balances and other liabilities	1,552,456	-	-	687,732	2,240,188
Total liabilities	**40,247,704**	**188,157**	**-**	**8,328,584**	**48,764,445**

	December 31, 2017				
	Within 3 Months YR 000s	From 3 to 6 Months YR 000s	From 6 Months to 1 Year YR 000s	Over 1 Year YR 000s	Total YR 000s
Liabilities					
Due to banks and financial institutions	9,256,919	-	-	-	9,256,919
Current accounts and other deposits	28,052,067	-	-	-	28,052,067
Equity of unrestricted investments and saving accounts' holders	3,975,588	268,685	-	8,842,680	13,086,953
Credit balances and other liabilities	1,355,018	-	-	767,767	2,122,785
Total liabilities	**42,639,592**	**268,685**	**-**	**9,610,447**	**52,518,724**

Note (42) shows the maturity analysis of financial assets and liabilities and the net gap between them at the financial statements date compared with last year.

c. Market risk

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads will affect the Bank'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 Bank separates exposure market risk between two portfolios, one for trading portfolios and non-trading portfolios.

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

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

All foreign exchange income/losses arising out of customer transactions and revaluation of statement of financial position assets and liabilities are booked by the treasury department. 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 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 determine profit (loss) sharing basis during the period. Accordingly, any change in the profitability level will determine the return ratio that the Bank could pay to unrestricted investments and saving accounts holders. Therefore, the Bank is not exposed, directly, to the risk of change in return rate.

Note (32) shows the average allocation of investment and saving accounts return rate during the year compared with the last year.

- **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 Bank's functional currency is the Yemeni Rial.

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

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

	December 31, 2018					
	US Dollar YR 000s	Euro YR 000s	Saudi Rial YR 000s	Sterling Pound YR 000s	Others YR 000s	Total YR 000s
Assets	27,989,738	713,329	3,623,296	48,097	1,675,996	34,050,456
Liabilities	24,834,018	711,111	5,253,991	46,588	1,374,502	32,220,210
Net currency position	**3,155,720**	**2,218**	**(1,630,695)**	**1,509**	**301,494**	**1,830,246**

	December 31, 2017					
	US Dollar YR 000s	Euro YR 000s	Saudi Rial YR 000s	Sterling Pound YR 000s	Others YR 000s	Total YR 000s
Assets	30,220,756	396,483	716,921	172,670	1,731,131	33,237,961
Liabilities	28,204,543	397,325	2,465,462	161,936	1,103,653	32,332,919
Net currency position	**2,016,213**	**(842)**	**(1,748,541)**	**10,734**	**627,478**	**905,042**

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

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

Currency	The closing exchange rates according to CBY		The average exchange rate according to the market rates*	
	Dec. 31, 2018 Equivalent YR	Dec. 31, 2017 Equivalent YR	Dec. 31, 2018 Equivalent YR	Dec. 31, 2017 Equivalent YR
USD	250,25	250,25	520	457
Euro	286,66	291,17	585,95	548,40
Saudi Riyal	66,73	66,74	138,25	120,20
Sterling Pound	319,14	331,18	595,08	616,95

* The Bank's management were dependent on the last transactions carried out to determine the average exchange rate in the parallel market.

According to the instructions of CBY, to the banks and banks operating in the Republic of Yemen, the closing price of the USD for the month of December 2018 is 250.25 YR for 1 USD, and therefore their financial positions are evaluated at the end of December 2018 according to this price. The Bank's management uses prices under the price bulletin the monthly closing of the month of December 2018 issued by the Central Bank of Yemen to assess foreign currency positions as at December 31, 2018.

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

Currency	Effect on Income Statement Increase (Decrease)	
	2018	2017
USD	3,401,620	1,665,742
Euro	2,316	(744)
Saudi Riyal	(1,747,749)	(1,400,850)
Sterling Pound	1,305	9,262
Others	249,044	518,319

Note (45) indicates the significant foreign currencies' positions at the 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 Bank 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 and raising staff awareness about those risks and the means to assess them.

e. Other risks

Other risks to which the Bank is exposed are regulatory risk, legal risk, and reputational risk. Regulatory risk is controlled through a framework of compliance policies and procedures. Legal risk is managed through the effective 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 Bank, with guidelines and policies being issued as appropriate.

8. Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with capital requirements which were issued by the CBY, the rules and ratio established by the Basel Committee on banking supervision and that the Bank maintains strong credit ratings and excellent capital ratios. The capital adequacy are monitored on a quarterly basis by the management of the Bank 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 requirement 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%. The capital adequacy ratio calculated in accordance with the guidelines of CBY compares between the core and supplementary capital with risk weighted total assets and liabilities at the financial statements date, is as follows:

	2018 YR Millions	2017 YR Millions
Core capital	6,114	6,137
Supplementary capital	25	23
Total capital	**6,139**	**6,160**
Risk-weighted assets and liabilities:		
Total assets	9,536	13,189
Contingent liabilities and commitments	3,092	4,492
Total risk-weighted assets and liabilities	12,628	**17,681**
Capital adequacy ratio	**48,61%**	**34.84%**

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

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

This item consists of the following as of December 31:

	2018 YR 000s	2017 YR 000s
Cash on hand and at ATM machines - local currency	2,631,431	1,221,755
Cash on hand and at ATM machines - foreign currency	5,529,983	2,447,888
	8,161,414	**3,669,643**
Mandatory reserve with CBY - local currency	1,143,943	1,028,746
Mandatory reserve with CBY - foreign currency	2,397,145	2,153,652
	3,541,088	**3,182,398**
	11,702,502	**6,852,041**

The reserve balances with CBY represent the minimum reserve required against customers' accounts in Yemeni Rial and foreign currencies (non-return bearing). These funds are not available for the Bank's daily business.

10. Due from banks and financial institutions

This item consists of the following as of December 31:

	2018 YR 000s	2017 YR 000s
Central Bank of Yemen:		
Current account - local currency	8,332,873	9,212,164
Current account - foreign currency	10,643,554	8,052,353
	18,976,427	**17,264,517**
Local Banks:		
Current account - local currency	731,960	1,160,188
Current account - foreign currency	762,988	2,449,341
	1,494,948	**3,609,529**
Foreign Banks:		
Current account - foreign currency	7,250,388	8,498,802
Deposit - foreign currency	550,550	550,550
	7,800,938	**9,049,352**
	28,272,313	**29,923,398**

11. Financing Murabaha and Istisna'a transactions

This item consists of the following as of December 31:

	Notes	2018 YR 000s	2017 YR 000s
Financing Murabaha transactions		6,544,566	6,468,110
Financing Istisna'a transactions		474,229	566,866
		7,018,795	**7,034,976**
Less: Provision for financing Murabaha and Istisna'a transactions	**12**	(3,707,243)	(2,869,014)
Less: Deferred revenues		(311,376)	(241,871)
Less: Uncollected revenues		(85,903)	(71,357)
		2,914,273	**3,852,734**

- According to the Banks Law No. (38) of 1998, Article No. 85, and Income Tax Law No. 17 of 2010, Article No. 14, all provisions made in compliance with the Central Bank of Yemen instructions are exempt from income tax.
- Non-performing financing Murabaha and Istisna'a transactions amounted to YR 3,668,723 thousand as at December 31, 2018 after deducting balances secured by cash deposits amount to YR 620,550 thousand (YR 2,802,257 thousand as at December 31, 2017 after deducting balances secured by cash deposits amounted to YR 527,897 thousand). The break-up of the above amount is as follows:

	2018 YR 000s	2017 YR 000s
Substandard debts	35,591	61,564
Doubtful debts	140,346	197,691
Bad debts	3,492,786	2,543,002
	3,668,723	**2,802,257**

12. Provision for financing Murabaha and Istisna'a transactions (performing and non-performing)

This item consists of the following as of December 31:

	Notes	2018 Specific YR 000s	General YR 000s	Total YR 000s
Balance at the beginning of the year		2,772,863	96,151	2,869,014
Provided during the year	**38**	960,733	-	960,733
Used during the year		(122,504)	-	(122,504)
Balance at the end of the year		**3,611,092**	**96,151**	**3,707,243**

	Notes	2017 Specific YR 000s	General YR 000s	Total YR 000s
Balance at the beginning of the year		2,573,246	92,077	2,665,323
Provided during the year		199,617	4,074	203,691
Used during the year	**38**	-	-	-
Balance at the end of the year		**2,772,863**	**96,151**	**2,869,014**

13. Ijarah Muntahia Bittamleek

This item consists of the following as of December 31:

	2018 YR 000s	2017 YR 000s
Cost at beginning of the year	2,195,886	1,568,697
Additions during the year	-	819,511
Disposal during the year	-	(192,322)
Cost at end of the year	**2,195,886**	**2,195,886**
Accumulated depreciation at beginning of the year	1,428,119	1,248,535
Charge during the year	356,086	371,906
Accumulated depreciation of deposals	-	(192,322)
Accumulated depreciation at end of the year	**1,784,205**	**1,428,119**
Net book value	**411,681**	**767,767**

The cost represent in machinery and equipment and real states leased to others based on Ijarah Muntahia Bittamleek contracts maturing.

14. Investment securities

This item consists of the following as of December 31:

	Note	Number of Sukuks	2018 YR 000s	2017 YR 000s
Equity-type instruments at fair value through equity				
Available-for-sale investments-unquoted	**15**	-	1,337,566	1,314,241
		-	**1,337,566**	**1,314,241**
Debt-type instruments				
Islamic sukuks - local		1,000	1,000,000	2,000,000
			2,337,566	**3,314,241**

- As at December 31, 2018 and 2017, the available-for-sale investments are local financial investments (unquoted). 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 Bank recognized impairment for some available for sale investments because the Bank did not receive any dividends from these investments during prior years and furthermore, no dividends are expected to receive in the coming years.
- All of available-for-sale investments are non-classified by any international classification companies.
- Investments in local Islamic Sukuks 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, 2018 (YR 1,000,000 as at December 31, 2017 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.

15. Investments available for sale

This item consists of the following as of December 31:

	Notes	2018 YR 000s	2017 YR 000s
Al-Raida Construction Company		648,200	648,200
Arab Iron and Steel Company		525,124	525,124
Burum Seafood Company		90,917	90,917
Yemen Financial Service Company		89,753	66,428
Shamel for Real Estate and Investment Development		50,000	50,000
Yemen Islamic Insurance Company		50,000	50,000
		1,453,994	**1,430,669**
Less: Impairment losses of investments available for sale	**15.1**	(116,428)	(116,428)
		1,337,566	**1,314,241**

15.1 Impairment for available for sale investment's

This item consists of the following as of December 31:

	2018 YR 000s	2017 YR 000s
Balance at the beginning of the year	116,428	116,428
Add: impairment during the year *	-	-
Balances at the end of the year	**116,428**	**116,428**

* According to the CBY instruction, the Bank should provide impairment in the value of available for sale investments and for some investments by 20% per annum from the beginning of the year 2016 of YR 526,110 thousand, because the Bank did not receive any dividends from these investments during the prior years; furthermore, no dividends are expected to be received in the coming years.

16. Investments in real estate

This item consists of the following as of December 31:

	2018 YR 000s	2017 YR 000s
Balance at the beginning of the year	2,448,962	1,594,791
Additions during the year	13,641	854,171
Disposed during the year	-	-
Total cost	**2,462,603**	**2,448,962**
Changes in fair value (unrealized gain)	-	-
	2,462,603	**2,448,962**

17. Qard hasan

This item consists of the following as of December 31:

	2018 YR 000s	2017 YR 000s
Qard hasan granted to banks and financial institutions	3,365,414	3,365,414
Qard hasan granted to customers	101,852	101,852
	3,467,266	**3,467,266**
Less: Payment for current accounts of receivable	(3,365,414)	-
Less: Qard Hasan's provision	(101,852)	(101,852)
	-	**3,365,414**

18. Investments in subsidiaries

This item consists of the following as of December 31:

	2018 YR 000s	Share %	2017 YR 000s	Share %
Al-Shamil for Tiles Factory (unquoted)	2,301,641	100%	2,601,641	100%

19. Debit balances and other assets

This item consists of the following as of December 31:

	Notes	2018 YR 000s	2017 YR 000s
Asset which titles have been transferred to Bank's ownership*		2,013,768	2,160,643
Debtors of Ijarah Muntahia Bittamleek		1,619,403	2,087,183
Current accounts overdrawn		1,190,117	1,101,589
Employees advances		143,575	148,896
Prepaid expenses		106,442	131,370
Stationery inventory		83,796	65,177
Accrued income		76,399	144,415
Projects in processing		27,729	112,951
Other debit balances		481,662	313,283
		5,742,891	**6,265,507**
Less: provision for doubtful debit balances	**20**	**(2,828,466)**	(2,177,939)
		2,914,425	**4,087,568**

* The Bank is currently taking the necessary procedures to notarize some of assets which were transferred to the Bank's ownership with the relevant Government authorities

20. Provision for doubtful debit balances and other assets

This item consists of the following as of December 31:

	Notes	2018 YR 000s	2017 YR 000s
Balance at beginning of the year		2,177,939	1,634,162
Revaluation differences of provision in foreign currencies		-	46,138
Provided during the year	**38**	650,527	497,639
Balance at the end of the year		**2,828,466**	**2,177,939**

21. operty and equipment

This item consists of the following as of December 31:

	Lands YR 000s	Building YR000	Machinery & Equipment YR 000s	Motor Vehicles YR 000s	Furniture & Fixtures YR 000s	Computer Equipment YR 000s	Leasehold Improvements YR 000s	Total YR 000s
Gross carrying amount								
January 1, 2018	**914,944**	**356,051**	**518,994**	**116,056**	**428,047**	**822,526**	**59,122**	**3,215,740**
Additions	-	75,402	81,458	5,155	80,630	29,707	144	272,496
Disposals	-	-	(7,972)	(4,351)	(79,552)	(12,856)	(8,115)	(112,846)
Balance as of December 31, 2018	**914,944**	**431,453**	**592,480**	**116,860**	**429,125**	**839,377**	**51,151**	**3,375,390**
Accumulated depreciation								
January 1, 2018	-	4,392	349,511	100,076	311,496	751,748	29,146	1,546,369
Depreciation for the year	-	8,223	49,498	7,258	22,262	37,964	5,479	130,684
Disposals	-	-	(7,034)	(3,732)	(53,642)	(12,541)	(5,261)	(82,210)
Balance as of December 31, 2018	**-**	**12,615**	**391,975**	**103,602**	**280,116**	**777,171**	**29,364**	**1,594,843**
Carrying amount as of December 31, 2018	**914,944**	**418,838**	**200,505**	**13,258**	**149,009**	**62,206**	**21,787**	**1,780,547**
Gross carrying amount								
January 1, 2017	**912,008**	**64,824**	**477,052**	**129,841**	**391,903**	**823,232**	**46,478**	**2,845,338**
Adjustment of opening balance	-	-	193	-	-	-	-	193
Additions	2,936	291,227	52,058	4,951	69,869	12,125	16,515	449,681
Disposals	-	-	(10,309)	(18,736)	(33,725)	(12,831)	(3,871)	(79,472)
Balance as of December 31, 2017	**914,944**	**356,051**	**518,994**	**116,056**	**428,047**	**822,526**	**59,122**	**3,215,740**
Accumulated depreciation								
January 1, 2017	**-**	**3,079**	**320,428**	**110,081**	**312,787**	**725,908**	**26,304**	**1,498,587**
Adjustment of opening balance	-	-	(9,662)	-	9,855	-	-	193
Depreciation for the year	-	1,313	45,561	8,732	20,554	37,703	6,713	120,576
Disposals	-	-	(6,816)	(18,737)	(31,700)	(11,863)	(3,871)	(72,987)
Balance as of December 31, 2017	**-**	**4,392**	**349,511**	**100,076**	**311,496**	**751,748**	**29,146**	**1,546,369**
Carrying amount as of December 31, 2017	**914,944**	**351,659**	**169,483**	**15,980**	**116,551**	**70,778**	**29,976**	**1,669,371**

22. Due to banks and financial institutions

This item consists of the following as of December 31:

	2018 YR 000s	2017 YR 000s
Local Banks		
Current accounts - local currency	3,384,180	7,488,129
Current accounts - Foreign currency	72	1,768,785
	3,384,252	**9,256,914**
Foreign banks and financial institutions		
Current accounts - foreign currency	641,349	5
	641,349	**5**
	4,025,601	**9,256,919**

23. Current accounts and other deposits according to sectors

23.1 Current accounts and other deposits by type

This item consists of the following as of December 31:

	2018 YR 000s	2017 YR 000s
Current accounts - local currency	11,162,404	9,545,881
Current accounts - foreign currency	16,413,508	12,389,113
	27,575,912	**21,934,994**
Cash margins - local currency	491,239	223,687
Cash margins - foreign currency	2,071,824	5,331,550
	2,563,063	**5,555,237**
Other deposits	-	561,836
	30,138,975	**28,052,067**

23.2 Current accounts and other deposits by sector

This item consists of the following as of December 31:

	2018 YR 000s	2017 YR 000s
Commercial	10,054,250	11,771,157
Industrial	5,836,017	5,521,367
Agricultural and fishing	104,154	61,862
Individuals and others	14,144,154	10,697,681
	30,138,575	**28,052,067**

24. Credit balances and other liabilities

This item consists of the following as of December 31:

	2018 YR 000s	2017 YR 000s
Creditors and other credit balances	971,415	1,014,290
Instalments of Ijarah Muntahia Bittamleek	411,681	767,767
Murabahat in progress	596,009	187,086
Accrued expenses	258,883	153,441
Income tax for the year	2,748	201
	2,240,736	**2,122,785**

25. Other provisions

This item consists of the following as of December 31:

			2018		
	Balance at the Beginning of the Year YR 000s	Provided during the Year YR 000s	Used during the Year YR 000s	Provisions reversed YR 000s	Balance at the End of the Year YR 000s
Provision for contingent liabilities	100,488	-	-	(40,107)	60,381
Provision for contingent claims	10,798	-	-	-	10,798
	111,286	**-**	**-**	**(40,107)**	**71,179**

			2017		
	Balance at the Beginning of the Year YR 000s	Provided during the Year YR 000s	Used during the Year YR 000s	Provisions reversed YR 000s	Balance at the End of the Year YR 000s
Provision for contingent liabilities	56,735	43,753	-	-	100,488
Provision for contingent claims	10,798	-	-	-	10,798
	67,533	**43,753**	**-**	**-**	**111,286**

26. Equity of unrestricted investment and saving accounts' holders

26.1 Equity of unrestricted investment and saving accounts' holders by type

	2018 YR 000s	2017 YR 000s
Unrestricted investment deposits - local currency	2,408,605	2,803,873
Unrestricted investment deposits - foreign currency	5,799,740	6,667,382
	8,208,345	**9,471,255**
Saving deposits - local currency	1,492,579	2,182,127
Saving deposits - foreign currency	2,658,757	1,433,571
	4,151,336	**3,615,698**
	12,359,681	**13,086,953**

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

26.2 Equity of unrestricted investment and saving accounts' holders by sectors

	2018 YR 000s	2017 YR 000s
Commercial	2,148,172	2,270,897
Industrial	240,081	259,925
Agricultural and fishing	75,053	71,149
Individuals and others	9,896,375	10,484,982
	12,359,681	**13,086,953**

27. Capital

The issued and paid-up capital amounted to YR 6 billion as at December 31, 2018 (YR 6 billion as at December 31, 2017) distributed to 6 million shares with nominal value amounting to YR 1,000 per share in accordance with the shareholders' Extraordinary General Assembly decree dated May 24, 2005 which also complies with the CBY Board of Directors decree No. (12) of 2004 related to the increase of capital to YR 6 billion.

28. Legal reserve

According to provisions of the Bank Law No. (38) of 1998 and the Bank's Articles of Association, 15% of the annual net profit is transferred to statutory reserve until the balance of this reserve reach the share capital. The Bank cannot use this reserve without the prior approval of the CBY.

29. Fair value reserve

Fair value reserve for investments in real estate as at December 31, 2018 includes a positive fair value amount YR 43,313 thousand (YR 43,313 thousand as at December 31, 2017) as a result of revaluation investments in real estate at fair value.

30. Contingent liabilities and commitments

This item consists of the following as of December 31:

		2018	
	Gross Commitments YR 000s	Margin Held YR 000s	Net Commitments YR 000s
Letters of guarantee	6,556,824	(1,612,643)	4,944,181
Letters of credit	2,686,900	(479,230)	2,207,670
	9,243,724	**(2,091,874)**	**7,151,851**

		2017	
	Gross Commitments YR 000s	Margin Held YR 000s	Net Commitments YR 000s
Letters of guarantee	10,628,378	(5,024,255)	5,604,123
Letters of credit	4,016,270	(530,981)	3,485,289
	14,644,648	**(5,555,236)**	**9,089,412**

31. Income from financing Murabaha and Istisna'a transactions

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

	2018 YR 000s	2017 YR 000s
Income from financing Murabaha transactions	193,858	313,983
Income from Istisna'a transactions	1,773	27,843
	195,631	**341,826**

32. Income from other joint investments

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

	2018 YR 000s	2017 YR 000s
Income from investment securities:		
Income from investment in Islamic Sukuk	122,055	393,289
Income from available - for - sale investments	9,000	12,500
	131,055	**405,789**
Income from investment deposits	28,214	55,420
Income from Ijarah Muntahia Bittamleek	83,210	88,487
Income from investment in real estate	186,848	-
Income from other investments	16,203	25,920
	445,530	**575,616**

33. Return of unrestricted investment and saving accounts' holders

The shares of return for the Bank and 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 calculated 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:

	2018		2017	
	YR %	USD %	YR %	USD %
Investment deposits for one year	4.5	2,00	4,31	2,00
Investment deposits for 6 months	3.25	1.25	3,11	1,20
Investment deposits for 3 months	2.5	1,00	2,40	1,04
Investment saving accounts	2.4	1,00	2,30	1,00

34. Fee and commissions income

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

	2018 YR 000s	2017 YR 000s
Commissions on letter of credits	245,083	345,973
Commissions on letter of guarantees	42,371	42,477
Commission on transfer of funds	55,059	33,079
Other fees and commissions	156,321	89,507
	498,834	**511,036**

35. Gains on foreign currency transitions

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

	2018 YR 000s	2017 YR 000s
Gain (loss) on dealing in foreign currencies	2,063,248	1,993,309
Gain from translation of foreign currencies balances	706,894	6,977
	2,770,142	**2,000,286**

36. Other operating income

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

	Notes	2018 YR 000s	2017 YR 000s
Provisions reversed:			
Provision for financing Murabaha and Istisna'a transactions	**12**	-	**-**
Provision for doubtful debts and other assets	**20**	-	-
Other provisions	**25**	40,107	-
		40,107	**-**
Rents		11,887	70,778
Others		20,924	20,405
		72,918	**91,183**

37. Loss on investment in foreign deposits

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

	2018 YR 000s	2017 YR 000s
Loss of deposit with Bank of Oil in Azerbaijan	-	368,321
Loss of deposit with the Bank of Amrah in Azerbaijan	-	189,712
	-	**558,033**

38. Provisions charged to income statement

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

	Notes	2018 YR 000s	2017 YR 000s
Provision for financing Murabaha and Istisna'a transactions	**12**	960,733	203,691
Provision for doubtful debt balances and other assets	**20**	650,527	497,639
Other provisions	**25**	-	43,753
		1,611,260	**745,083**

39. Staff costs

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

	2018 YR 000s	2017 YR 000s
Basic salaries, allowances and incentive	779,972	716,652
Bank contributions to social security	37,223	37,186
	817,195	**753,838**

40. Other expenses

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

	2018 YR 000s	2017 YR 000s
Security	139,304	109,713
Fuel and lubricants	109,745	63,837
Rent	108,237	114,990
Communication	84,710	77,926
Zakat	82,285	45,750
Maintenance	74,492	130,261
Hospitality	64,612	49,114
Insurance expenses	30,886	27,555
Water and electricity	24,791	13,124
Transportation	21,258	17,711
Stationery	19,787	13,680
Advertising and publicity	18,856	21,362
Professional and consultancy fees	16,773	25,009
Cleaning expenses	16,409	13,837
Training	11,448	10,347
Government fees and subscription	5,395	34,471
Others	266,500	106,600
	1,095,488	**875,287**

41. Earnings per share

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

	2018	2017
Net profit for the year YR 000s	8,252	803
Number of shares (thousand shares)	6,000	6,000
Earnings per share (YR)	**1.37**	**0.13**

42. Maturities of financial assets and liabilities

2018	Due within 3 Months YR Million	Due from 3 to 6 Months YR Million	Due from 6 Months to one Year YR Million	Due over one Year YR Million	Total YR Million
Assets:					
Cash on hand and reserve balances with CBY	11,703	-	-	-	11,703
Due from banks and financial institutions	27,721	-	-	551	28,272
Financing Murabaha and Istisna'a transactions	581	245	845	1,243	2,914
Ijarah Muntahia Bittamleek	-	-	-	768	768
Investment securities	1,338	-	-	1,000	2,338
Investments in real estate	-	-	-	2,463	2,463
Qard Hasan	-	-	-	-	-
Investment in subsidiaries	-	-	-	2,302	2,302
Overdraft accounts	-	-	-	1,190	1,190
	41,343	**245**	**845**	**9,517**	**51,950**
Liabilities:					
Due to banks and financial institutions	4,026	-	-	-	4,026
Current accounts and other deposits	30,139	-	-	-	30,139
Equity of unrestricted investments and saving accounts' holders	4,531	188	-	7,641	12,360
	38,696	**188**	**-**	**7,641**	**46,525**
Net	**2,647**	**57**	**845**	**1,876**	**5,425**

2017	Due within 3 Months YR Million	Due from 3 to 6 Months YR Million	Due from 6 Months to one Year YR Million	Due over one Year YR Million	Total YR Million
Assets:					
Cash on hand and reserve balances with CBY	6,852	-	-	-	6,852
Due from banks and financial institutions	29,372	-	-	551	29,923
Financing Murabaha and Istisna'a transactions	1,084	153	652	1,964	3,853
Ijarah Muntahia Bittamleek	-	-	-	768	768
Investment securities	1,314	-	-	2,000	3,314
Investments in real estate	-	-	-	2,449	2,449
Qard Hasan	-	-	-	3,365	3,365
Investment in subsidiaries	-	-	-	2,602	2,602
Overdraft accounts	-	-	41	1,061	1,102
	38,622	**153**	**693**	**14,760**	**54,228**
Liabilities:					
Due to banks and financial institutions	9,257	-	-	-	9,257
Current accounts and other deposits	28,052	-	-	-	28,052
Equity of unrestricted investments and saving accounts' holders	3,975	269	-	8,843	13,087
	41,284	**269**	**-**	**8,843**	**50,396**
Net	**(2,662)**	**(116)**	**693**	**5,917**	**3,832**

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

2018	Manufacturing YR Million	Trading YR Million	Agricultural and Fishing YR Million	Financial YR Million	Individual & Others YR Million	Total YR Million
Assets						
Cash on hand and reserve balances with CBY	-	-	-	11,703	-	11,703
Due from banks and financial institutions	-	-	-	28,272	-	28,272
Financing Murabaha and Istisna'a transactions	931	1,580		-	403	2,914
Ijarah Muntahia Bittamleek	412	-	-	-	-	412
Investment securities	525	-	91	1,000	722	2,338
Investments in real estate	-	-	-	-	2,463	2,463
Qard Hasan	-	-	-	-	-	-
Investment in subsidiaries	2,302	-	-	-	-	2,302
Overdraft accounts	48	673	-	-	469	1,190
Liabilities						
Due to banks and financial institutions	-	-	-	-	4,026	4,026
Current accounts and other deposits	5,836	10,054	104	37	14,108	30,139
Equity of unrestricted investments and saving accounts' holders	240	2,148	75	87	9,809	12,359
Contingent liabilities and commitments (net)						
Letters of guarantee	14	479	-	-	1,715	2,208
Letters of credit	-	3,827	-	-	1,117	4,944

2017	Manufacturing YR Million	Trading YR Million	Agricultural and Fishing YR Million	Financial YR Million	Individual & Others YR Million	Total YR Million
Assets						
Cash on hand and reserve balances with CBY	-	-	-	6,852	-	6,852
Due from banks and financial institutions	-	-	-	29,923	-	29,923
Financing Murabaha and Istisna'a transactions	1,147	2,301	-	2	403	3,853
Ijarah Muntahia Bittamleek	768	-	-	-	-	768
Investment securities	525	-	91	2,000	698	3,314
Investments in real estate	-	-	-	-	2,449	2,449
Qard Hasan	-	-	-	3,365	-	3,365
Investment in subsidiaries	2,602	-	-	-	-	2,602
Overdraft accounts	48	591	-	-	463	1,102
Liabilities						
Due to banks and financial institutions	-	-	-	-	9,257	9,257
Current accounts and other deposits	5,521	11,771	62	-	10,698	28,052
Equity of unrestricted investments and saving accounts' holders	260	2,271	71	-	10,485	13,087
Contingent liabilities and commitments (net)						
Letters of guarantee	2	1,254	-	-	2,229	3,485
Letters of credit	1,275	3,942	-	-	387	5,604

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

	2018					
	Republic of Yemen YR Million	America YR Million	Europe YR Million	Asia YR Million	Africa YR Million	Total YR Million
Assets						
Cash on hand and reserve balances with CBY	11,703	-	-	-	-	11,703
Due from banks and financial institutions	22,985	-	1,149	4,138	-	28,272
Financing Murabaha and Istisna'a transactions	2,914	-	-	-	-	2,914
Ijarah Muntahia Bittamleek	412	-	-	-	-	412
Investment securities	2,338	-	-	-	-	2,338
Investments in real estate	2,463	-	-	-	-	2,463
Qard Hasan	-	-	-	-	-	-
Investment in subsidiaries	2,302	-	-	-	-	2,302
Overdraft accounts	1,190	-	-	-	-	1,190
Liabilities						
Due to banks and financial institutions	3,315	-	-	711	-	4,026
Current accounts and other deposits	29,669	2	5	128	335	30,139
Equity of unrestricted investments and saving accounts' holders	12,211	56	-	91	1	12,360
Contingent liabilities and commitments (net)						
Letters of guarantee	2,208	-	-	-	-	2,208
Letters of credit	4,944	-	-	-	-	4,944

	2017					
	Republic of Yemen YR Million	America YR Million	Europe YR Million	Asia YR Million	Africa YR Million	Total YR Million
Assets						
Cash on hand and reserve balances with CBY	6,852	-	-	-	-	6,852
Due from banks and financial institutions	23,314	-	2,846	3,763	-	29,923
Financing Murabaha and Istisna'a transactions	3,853	-	-	-	-	3,853
Ijarah Muntahia Bittamleek	768	-	-	-	-	768
Investment securities	3,314	-	-	-	-	3,314
Investments in real estate	2,449	-	-	-	-	2,449
Qard Hasan	3,365	-	-	-	-	3,365
Investment in subsidiaries	2,602	-	-	-	-	2,602
Overdraft accounts	1,099	-	-	3	-	1,102
Liabilities						
Due to banks and financial institutions	9,186	-	-	71	-	9,257
Current accounts and other deposits	27,741	2	5	303	1	28,052
Equity of unrestricted investments and saving accounts' holders	12,947	56	-	82	2	13,087
Contingent liabilities and commitments (net)						
Letters of guarantee	3,485	-	-	-	-	3,485
Letters of credit	5,604	-	-	-	-	5,604

45. Significant foreign currencies' positions

To comply with CBY circular No. 6 of 1998, the Bank establishes limits for each individual foreign currency position as well as an aggregate limit for all currencies. The limits for individual foreign currencies shall not exceed 15% of the total capital and reserves, whereas the aggregate limit for all foreign currencies shall not exceed 25% of the total capital and reserves. The following schedule shows the Bank's significant foreign currency positions at the financial statements date.

	December 31, 2018		December 31, 2017	
	Surplus (Deficit) YR 000s	% of Capital & reserves	Surplus (Deficit) YR 000s	% of Capital & reserves
USD	3,155,720	50.47%	2,016,213	32.48%
Euro	2,218	0.04%	(842)	(0.01%)
Saudi Rial	(1,630,695)	(26.08%)	(1,748,541)	(28.17%)
Sterling Pound	1,509	0.02%	10,734	0.17%
Others	301,494	4.82%	627,478	10.11%
Net surplus (deficit)	1,830,246	29.27%	**905,042**	**14.58%**

The USD exchange rate at December 31, 2018 was 250.25 YR (at December 31, 2017 was 250.25).

46. Transactions with related parties

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

Related parties are represented in the members of the Board Directors, executive management, and the companies which are owned by the shareholders and members of the Board of Directors. The Bank deals with related parties on the same basis applied to third parties in accordance with the Banks Law as implemented by CBY circular no. 4 of 1999 which limits credit transactions with related parties. These transactions represent in Murabaha financing and other various transactions conducted as part of the Bank's normal course of doing business.

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

	2018 YR 000s	2017 YR 000s
Current and saving accounts	2,339	3,196
Murabaha financing transactions	696	1,495
Letters of guarantee (net)	355	461
Letters of credit (net)	1,987	1,860
Debit balances and other assets	207	82
Executive management wages and salaries	176	151
Board of directors' bonuses and allowances	48	2

47. Tax status

- The Bank is subject to income tax starting from February 17, 2009 due to the expiry of the exemption period granted by the Investment Law.

- Both income taxes as well as salaries and wages taxes were accounted for the years 2009, 2010, 2011, 2012 and 2013. Taxes were paid according to the additional forms of assessment notification received from the Tax Authority.

- The tax return for the years 2014, 2015 and 2016 was submitted within the legal deadline and due amounts paid according to the tax return. The Bank was informed of additional forms of assessment notification for those years. The Bank has paid the taxes due according to the additional forms of assessment notification, except for the bank contribution of Skills Development Fund for those years.

- The Bank has submitted the tax return for the year 2017 within the legal deadline, and paid the due amounts according to the tax return. The Tax Authority has not performed its review, nor has the Bank received any notification of any additional assessment.

48. Zakat status

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

- The Bank has paid the Zakat up to the end of 2017 according to the Zakat return.

49. Events in Republic of Yemen

Due to the current political crisis, economic situation and security events in the Republic of Yemen, it is difficult for management to predict the effects of these events to the Bank activities and its financial position for the coming period. The management is studying the effects of this crisis in the short term and make the necessary precautions to ensure continuity.

50. Authorization of financial statements

The financial statements for the year ended December 31, 2018 were approved by the chairman of the board of directors on April 30, 2019, and decision was issued to present the financial statements to the General Assembly for approval.