البنك الأهلي اليمني

National Bank Of Yemen

ADEN

REPUBLIC OF YEMEN

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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REPUBLIC OF YEMEN

AUDITED FINANCIAL STATEMENTS

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Contents

STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

ASSETS	Note	***31 December 2009 YR' 000***	*31 December 2008 YR' 000*
Cash on hand and reserve balances with the Central Bank of Yemen	4	**11,052,309**	9,933,260
Due from banks	5	**28,792,299**	25,612,567
Treasury bills, net	6	**52,587,188**	46,280,049
Certificates of deposit with the Central Bank of Yemen	7	**-**	10,350,000
Loans and advances to customers, net of provision	8	**9,369,273**	8,409,302
Available for sale investments, net	9	**216,324**	205,826
Debit balances and other assets	10	**1,120,567**	1,739,911
Property, plant and equipment, net of accumulated depreciation	11	**2,303,275**	2,176,637
TOTAL ASSETS		**105,441,235**	104,707,552
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	12	**573,410**	2,076,627
Customers' deposits	13	**89,814,420**	87,871,641
Credit balances and other liabilities	14	**2,203,936**	2,735,996
Income tax payable	15	**774,586**	824,041
TOTAL LIABILITIES		**93,366,352**	93,508,305
EQUITY			
Capital	16-a	**9,000,000**	8,500,000
Surplus on revaluation of property reserve	16-b	**639,762**	639,762
Reserves	16-c	**2,380,268**	2,013,676
Cumulative changes in the fair value reserve	16-d	**54,853**	45,809
TOTAL EQUITY		**12,074,883**	11,199,247
TOTAL LIABILITIES AND EQUITY		**105,441,235**	104,707,552
CONTRA ACCOUNTS AND OTHER COMMITMENTS, NET	17	**19,913,976**	19,666,131

Independent Auditors' Report attached (page 1).

The attached notes 1 to 39 form an integral part of these financial statements.

Arwa Ali Suleiman Al-Koori Manager Statistic & Research	Sami Abdul Hamid Mackawee First Deputy General Manager	Abdul Rahman Mohammed AlKuhali Chairman and General Manager

INCOME STATEMENT

For The Year Ended 31 December 2009

	Note	2009 YR' 000	2008 YR' 000
OPERATING INCOME			
Interest on loans and advances and due from banks	18	**1,405,116**	1,889,180
Interest on treasury bills		**7,316,146**	5,749,696
Interest on certificates of deposit with the Central Bank of Yemen		**175,765**	1,440,114
Total interest income		**8,897,027**	9,078,990
Cost of deposits	19	**(5,027,968)**	(5,611,628)
Net interest income		**3,869,059**	3,467,362
Commissions and fee income on banking services	20	**809,595**	805,114
Income on available for sale investments		**17,592**	13,452
Gain / (Loss) on foreign currency transactions	21	**13,001**	(121,927)
Other operating income	22	**433,263**	830,363
NET OPERATING INCOME		**5,142,510**	4,994,364
OPERATING EXPENSES			
Commissions and fee expenses on banking services		**59,446**	68,635
General and administration expenses	23	**1,595,768**	1,526,855
Provisions	24	**1,189,193**	969,471
TOTAL OPERATING EXPENSES		**2,844,407**	2,564,961
PROFIT FOR THE YEAR BEFORE ZAKAT AND INCOME TAX		**2,298,103**	2,429,403
Zakat	25	**(85,000)**	(75,000)
PROFIT FOR THE YEAR AFTER ZAKAT AND BEFORE INCOME TAX		**2,213,103**	2,354,403
Provision for income tax	15	**(774,586)**	(824,041)
PROFIT FOR THE YEAR		**1,438,517**	1,530,362
Profit attributable to controlling interest		**1,438,517**	1,530,362
Profit attributable to non-controlling interest		**-**	-
Basic earnings per share	26	**YR 164**	YR 191

The attached notes 1 to 39 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 31 December 2009

	2009	*2008*
	YR' 000	*YR' 000*
Profit for the year	**1,438,517**	1,530,362
Other comprehensive income		
Net movement in fair value for the year	**9,044**	24,494
Other comprehensive income for the year	**9,044**	24,494
Total comprehensive income for the year	**1,447,561**	1,554,856
Total comprehensive income attributable to controlling interest	**1,447,561**	1,554,856
Total comprehensive income attributable to non-controlling interest	**-**	-

The attached notes 1 to 39 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2009

	Capital	Surplus On Revaluation Of Property Reserve	Statutory Reserve	General Reserve	Cumulative Changes in Fair Value Reserve	Retained Earnings	Non Controlling Interest	Total
	---Controlling Interest---							
	YR '000	YR '000	YR '000	YR '000	YR '000	YR '000	YR '000	YR '000
Balance at 31 December 2007	7,500,000	639,762	1,411,772	148,060	21,315	-	-	9,720,909
Comprehensive income								
Profit for the year	-	-	-	-	-	1,530,362	-	1,530,362
Other comprehensive income								
Net movement in fair value for the year	-	-	-	-	24,494	-	-	24,494
Total comprehensive income	-	-	-	-	24,494	1,530,362	-	1,554,856
Transaction with owners								
Transfer to statutory reserve	-	-	229,554	-	-	(229,554)	-	-
Transfer to general reserve	-	-	-	229,554	-	(229,554)	-	-
Government's share in profit transferred to capital	994,736	-	-	-	-	(994,736)	-	-
Transfer from general reserve to capital	5,264	-	-	(5,264)	-	-	-	-
Employees' share in profit	-	-	-	-	-	(76,518)	-	(76,518)
Total transaction with owners	1,000,000	-	229,554	224,290	-	(1,530,362)	-	(76,518)
Balance at 31 December 2008	8,500,000	639,762	1,641,326	372,350	45,809	-	-	11,199,247
Comprehensive income								
Profit for the year	**-**	**-**	**-**	**-**	**-**	**1,438,517**	**-**	**1,438,517**
Other comprehensive income								
Net movement in fair value for the year	**-**	**-**	**-**	**-**	**9,044**	**-**	**-**	**9,044**
Total comprehensive income	**-**	**-**	**-**	**-**	**9,044**	**1,438,517**	**-**	**1,447,561**
Transaction with owners								
Transfer to statutory reserve	**-**	**-**	**215,778**	**-**	**-**	**(215,778)**	**-**	**-**
Transfer to general reserve	**-**	**-**	**-**	**215,778**	**-**	**(215,778)**	**-**	**-**
Government's share in profit	**-**	**-**	**-**	**-**	**-**	**(500,000)**	**-**	**(500,000)**
Government's share in profit transferred to capital	**435,036**	**-**	**-**	**-**	**-**	**(435,036)**	**-**	**-**
Transfer from general reserve to capital	**64,964**	**-**	**-**	**(64,964)**	**-**	**-**	**-**	**-**
Employees' share in profit	**-**	**-**	**-**	**-**	**-**	**(71,925)**	**-**	**(71,925)**
Total transaction with owners	**500,000**	**-**	**215,778**	**150,814**	**-**	**(1,438,517)**	**-**	**(571,925)**
Balance at 31 December 2009	**9,000,000**	**639,762**	**1,857,104**	**523,164**	**54,853**	**-**	**-**	**12,074,883**

The Bank's Board of Directors, in its meeting held on 15 April 2007, resolved to increase the capital of the Bank to YR 10,000,000 thousands. H.E. the Minister of Finance has approved this increase in the capital. The capital will be raised from the Government's share of profit at the end of each year as the Board of Directors will decide until the amount of the capital reaches YR 10,000,000 thousands.

The attached notes 1 to 39 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2009

CASH FLOWS FROM OPERATING ACTIVITIES	Note	2009 YR 000	2008 YR 000
Profit for the year before the Zakat and Income tax		**2,298,103**	2,429,403
Adjustments for:			
Provision for losses on loans and advances and on contra accounts made during the year		**1,148,394**	938,852
Provision for losses on loans and advances and contra accounts written back during the year		**(419,618)**	(722,040)
Amount utilized during the year from provision for losses on loans and advances		**(5,896)**	(2,152)
Revaluation of balances of provision for losses on loans and advances and on contra accounts		**40,910**	2,541
Loss from sale of property, plant and equipment		**85**	262
Income tax paid		**(824,041)**	(1,260,109)
Zakat paid		**(85,000)**	(75,000)
Depreciation of property, plant and equipment		**91,105**	81,456
NET OPERATING PROFIT BEFORE CHANGES IN ASSETS AND LIABILITIES RELATED TO OPERATING ACTIVITIES (1)		2,244,042	1,393,213
CHANGES IN BANKING ASSETS AND LIABILITIES			
Reserve balances with the Central Bank of Yemen		**(808,782)**	2,347,894
Treasury bills maturing after three months, net of unamortized discount		**(10,891,945)**	3,614,668
Due from banks maturing after three months		**(1,505,672)**	931,122
Loans and advances to customers before provision but after suspended interest		**(1,722,390)**	121,163
Debit balances and other assets		**619,344**	(78,509)
NET (INCREASE) / DECREASE IN ASSETS (2)		**(14,309,445)**	6,936,338
Due to banks		**(1,503,217)**	1,503,769
Customers' deposits		**1,942,779**	6,910,437
Credit balances and other liabilities		**(533,430)**	315,016
NET (DECREASE) / INCREASE IN LIABILITIES (3)		**(93,869)**	8,729,222
CASH FLOWS FROM/ (USED IN) INVESTMENT ACTVITIES			
Purchase of property, plant and equipment		**(217,828)**	(348,687)
Sale proceeds from sale of property, plant and equipment		**-**	8,206
Purchase of available for sale investments		**(1,454)**	(36,728)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES (4)		**(219,282)**	(377,209)
CASH FLOWS FROM/ (USED IN) FINANCING ACTVITIES			
Government's share paid in the profit for the year		**(500,000)**	-
Employees' share in the profit for the year		**(71,925)**	(76,518)
NET CASH FLOW (USED IN) FINANCING ACTIVITIES (5)		**(571,925)**	(76,518)
NET INCREASE IN CASH AND CASH EQUIVALENTS (1+2+3+4+5)		**(12,950,479)**	16,605,046
Cash and cash equivalents at 1 January		80,545,484	63,940,438
Cash and cash equivalents at 31 December	28	**67,595,005**	80,545,484

The attached notes 1 to 39 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2009

1 INCORPORATION AND ACTIVITY

The National Bank of Yemen (the Bank) was incorporated in Aden in 1969. It is wholly owned by the Government of Yemen and is registered under commercial registration number 1748.

The Bank undertakes all banking activities through its head office and 28 branches spread all over the Southern and Eastern Governorates and through two branches in Sana'a, and one branch in each of Hodeidah and Taiz. The Bank practices retail banking activities inside the Republic of Yemen.

The Head Office of the Bank is located at Queen Arwa Street. Its postal address is P. O. Box 5, Crater, Aden, Republic of Yemen.

2 SIGNIFICANT ACCOUNTING POLICIES

2-1 Basis of Preparation of Financial Statements

The financial statements have been prepared on a historical cost basis, except for the available for sale investments, financial assets and financial liabilities held at fair value through profit or loss and that have been measured at fair value. The financial statements are presented in Yemeni Riyals and all values are rounded to the nearest one thousand Yemeni Riyal except when otherwise is indicated.

The disclosure on risks from financial instruments are presented in Risk Management report in note 3-2

The statement of cash flows shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities. Cash and cash equivalents include highly liquid investments. Note 28 shows in which item of the statement of financial position cash and cash equivalents are included.

The cash flows from operating activities are determined by using the indirect method. Profit for the year is therefore adjusted by non – cash items, such as measurement gains and losses, changes in provisions, as well as changes from receivables and liabilities. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated. Interest received or paid are classified as operating cash flows.

The cash flows from investing and financing activities are determined by using the direct method. The Bank's assignment of the cash flows to operating, investing and financing category depends on the Bank's business model (management approach)

<u>Statement of Compliance</u>

The financial statements are prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (IASB) in force as at 31 December 2009 and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) of the IASB in force as at 31 December 2009, the requirements of the current local prevailing laws and regulations and the rules and instructions issued by the Central Bank of Yemen including those covered by the Central Bank of Yemen circular no. 2 of 2002 regarding the format of the financial statements.

a) *Standards, amendments and interpretations effective on or after 1 January 2009:*

- The following standards, amendments and interpretations, which became effective in 2009, are relevant to the Bank:

Standard	Content	Applicable date for financial years beginning on / after
IFRS 7	Improving disclosures about financial Instruments	1 January 2009
IAS 1	Presentation of financial statements (amended on 2007)	1 January 2009

- **Amendment to IFRS 7: Financial Instrument - Disclosures**

The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosure about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or on the comprehensive income of the Bank.

- **IAS 1: Presentation of financial statements**

A revised version of IAS 1 was issued in September 2007. It prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity but requires 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Bank presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also conforms with the revised standard.

According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings.

2 SIGNIFICANT ACCOUNTING POLICIES

2-1 Basis of Preparation of Financial Statements

a) Standards, amendments and interpretations effective on or after 1 January 2009:

- The following standards, amendments and interpretations became effective in 2009, but were not relevant for the Bank's operations:

Standard / Interpretation	Content	Applicable date for financial years beginning on / after
IFRS 2	Share – based payment – Vesting conditions and cancellations	1 January 2009
IFRS 8	Operating Segments	1 January 2009
IAS 23	Borrowing Costs (amended in 2007)	1 January 2009
IAS 32 and IAS 1	Puttable financial instruments and obligations arising on liquidation	1 January 2009
IFRIC 13	Customer loyalty programme	1 July 2008
IFRIC 16	Hedges of a net investment in a foreign operation	1 October 2008

- **IFRS 2: Share based payments – Vesting conditions and cancellations**

The IASB published an amendment to IFRS 2, 'Share-based payment', in January 2008. The changes pertain mainly to the definition of vesting conditions and the regulations for the cancellation of a plan by a party other than the entity. These changes clarify that vesting conditions are solely service and performance conditions. As a result of the amended definition of vesting conditions, non-vesting conditions should now be considered when estimating the fair value of the equity instrument granted. In addition, the standard describes the posting type if the vesting conditions and non-vesting conditions are not fulfilled. IFRS 2 is not relevant to the Bank's operations because the Bank does not make any share based payments.

- **IFRS 8: Operating segments**

IFRS 8 was issued in November 2006 and became mandatorily applicable for accounting periods beginning on 1 January 2009. The standard replaces IAS 14, 'Segment reporting', with its requirement to determine primary and secondary reporting segments.

- **IAS 23: Borrowing costs**

A revised version of IAS 23 was issued in March 2007. It eliminates the option of immediate recognition of borrowing costs as an expense for assets that require a substantial period of time to get ready for their intended use. This amendment is not relevant since the Bank has not incurred any borrowing costs for the construction of an asset.

- **IAS 32 and IAS 1: Puttable financial instruments and obligations arising on liquidation**

The IASB amended IAS 32 in February 2008. It now requires some financial instruments that meet the definition of a financial liability to be classified as equity. Puttable financial instruments that represent a residual interest in the net assets of the entity are now classified as equity provided that specified conditions are met. Similar to those requirements is the exception to the definition of a financial liability for instruments that entitle the holder to a pro rata share of the net assets of an entity only on liquidation. This amendment to IAS 32 is not relevant to the Bank because the Bank does not have any puttable financial instruments.

- **IFRIC 13: Customer loyalty programmes**

IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple element arrangement. The consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Bank's operations as the Bank does not operate any loyalty programmes.

- **IFRIC 16: Hedges of a net investment in a foreign operation**

This interpretation clarifies the accounting treatment in respect of net investment hedging. This interpretation is not relevant to the Bank's operations because the Bank does not have any foreign operations.

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2-1 Basis of Preparation of Financial Statements *(Continued)*

b) Standards and interpretations issued but not yet effective:

- For the avoidance of doubt, the following standards and interpretations, which were issued by IASB before 31 December 2009 and are not yet in effect, have not been adopted early:

Standard / Interpretation	Content	Applicable date for financial years beginning on / after
IFRS 1 and IAS 27	Cost of an investment in a subsidiary, jointly – controlled entity or associate	1 July 2009
IFRS 3	Business combinations	1 July 2009
IAS 27	Consolidated and separate financial statements	1 July 2009
IAS 39	Financial Instruments: Recognition and measurement – eligible hedged items items	1 July 2009
IFRIC 17	Distribution of non – cash assets to owners	1 July 2009
IFRIC 18	Transfers of assets from customers	1 July 2009
IFRS 9	Financial instruments part 1: Classification and measurement	1 January 2013

- **IFRS 1 and IAS 27: Cost of an investment in a subsidiary, jointly-controlled entity or associate**

The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and requires an entity to present dividends from investments in subsidiaries, jointly controlled entities and associates as income in the separate financial statements of the investor. This amendment is not likely to be relevant to the Bank since the bank does not have any investments in subsidiaries, associates or jointly-controlled entities.

- **IFRS 3: Business combinations**

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice, on an acquisition-by-acquisition basis, to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Bank will apply IFRS 3 (revised) prospectively to all business combination transactions from 1 January 2010.

- **IAS 27: Consolidated and separate financial statements**

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Bank will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- **IAS 39: Financial instruments: Recognition and measurement – eligible hedged items**

The amendment 'Eligible hedged items' was issued in July 2008. It provides guidance for two situations. On the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. This amendment is not expected to be relevant to the Bank's operations since the Bank has not entered into any hedge transactions.

- **IFRIC 17: Distributions of non-cash assets to owners**

IFRIC 17 was issued in November 2008. It addresses how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognized when the dividend was authorised by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognised at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit or loss. Additional disclosure is to be made if the net assets being held for distribution to owners meet the definition of a discontinued operation.

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2-1 Basis of Preparation of Financial Statements *(Continued)*

b) Standards and interpretations issued but not yet effective (continued):

- For the avoidance of doubt, the following standards and interpretations, which were issued by IASB before 31 December 2009 and are not yet in effect, have not been adopted early *(continued):*

  - **IFRIC 18: Transfers of assets from customers**

  IFRIC 18 was issued in January 2009. It clarifies how to account for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment, and the entity must then use that item to provide the customer with ongoing access to supply of goods and/or services. The Bank will not be impacted by applying IFRIC 18.

  - **Improvements to IFRS**

  'Improvements to IFRS' were issued in May 2008. They contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual International Financial Reporting Standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

  - **IFRS 9: Financial instruments Part 1: Classification and measurement**

  IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

  Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

  All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

  While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

  The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

The exceptions to International Financial Reporting Standards in compliance with local laws and regulations issued by the Central Bank of Yemen are:

i) The adoption of minimum fixed percentages for losses on non performing loans and advances in accordance with the Central Bank of Yemen circular no. 6 of 1996 and circular no. 5 of 1998; and

ii) The inclusion of the general provision for risk calculated on the performing loans and advances in the general provision for loans and advances rather than equity.

The effect of these deviations is immaterial on the financial statements of the Bank as at 31 December 2009.

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2-2 Significant Accounting Estimates

The preparation of financial statements requires management to make adjustments, estimates and assumptions that affect the application of policies and reported amounts of the financial assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates considered by the management of the Bank to have a significant risk of material adjustment in subsequent periods primarily comprise provisions for impairment of loans and advances.

The Bank takes into consideration the following factors when determining the provisions for loans and advances and contingent liabilities:

- The overall customer's financial position;
- Risk percentage i.e. the ability of the customer to conduct profitable business activities and collect enough money to pay the debt;
- Value of the collateral and possibility of transferring ownership to the Bank; and
- Cost of settling the debt.

Management Estimates

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

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2-3 Summary of Principal Accounting Policies

The management has applied, consistently and continuously, the following accounting policies which comply with International Financial Reporting Standards, in dealing with items which are considered material in relation to the Bank's financial statements:

Trade And Settlement Date Accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Foreign Currencies

(i) The Bank maintains its records in Yemeni Riyals which are the Bank's functional and presentation currency.

(ii) Transactions denominated in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the value date of the transactions. Balances of monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Yemeni Riyals at the rate of exchange rate ruling on that date. All realized and unrealized gains or losses resulting from revaluation are taken to "other operating income" or "other operating expense" in the income statement.

(iii) The Bank does not deal in forward foreign exchange contracts.

Revenue Recognition

(i) Interest income is recognized in the income statement on the accrual basis using the effective interest rate method. The effective interest rate is established on initial recognition of the financial asset/liability and is not revised subsequently. However, in order to comply with the requirements of the Central Bank of Yemen circular no. 6 of 1996, the Bank does not accrue interest income on non-performing loans and credit facilities. When an account is classified as non-performing, all uncollected interest relating to the three months prior to categorizing the loan as non-performing is reversed from income and recorded as uncollected interest income. Income from investments is accrued on notification of entitlement. Dividend income is recognized when the right to receive payment is established

(ii) In accordance with the Central Bank of Yemen circular no. 2 of 2000, any provisions written back are included under "other operating income".

(iii) Commission and fee income on banking services are recognized when earned.

Cash and Cash Equivalents

For the purpose of preparing the statement of cash flows, cash and cash equivalents consist of cash on hand, balances with the Central Bank of Yemen other than statutory reserve balances, demand deposits with other banks, treasury bills and certificates of deposit with the Central Bank of Yemen maturing within three months from the date of acquisition.

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2-3 Summary of Principal Accounting Policies *(Continued)*

Due from Banks and other Money Market Placements

Deposits and balances due from banks are presented at cost after deducting any amount that has been written off and any impairment in their value. All money market and customer deposits are carried at amortised cost.

Treasury Bills

Treasury bills issued by the Central Bank of Yemen on behalf of the Ministry of Finance are stated at their nominal value, adjusted for any unamortised discount outstanding at the statement of financial position date.

Certificates of Deposits

Certificates of deposit issued by the Central Bank of Yemen are stated at cost. The accrued interest on certificates of deposit is included under "debit balances and other assets".

Provision for Losses on Loans and Contingent Liabilities

In order to comply with the Central Bank of Yemen circular no. 6 of 1996 and circular no. 5 of 1998, provision is made for specific loans, overdrafts, advances and contingent liabilities, in addition to a percentage for general risks calculated on the total of other loans, overdrafts and contingent liabilities after deducting balances secured by deposits and banks' guarantees.

The provision is determined based on periodic comprehensive reviews of the credit portfolio and contingent liabilities. Accordingly, provision is made in accordance with the following rates:

• Performing loans including watch loans	2%
• Performing contingencies including watch accounts	1%
• Non-performing loans and contingencies:	
- Substandard debts	15%
- Doubtful debts	45%
- Bad debts	100%

When a loan is known to be uncollectible, after all the necessary legal procedures have been completed, and the final loss has been determined, or if directed by the Central Bank of Yemen upon review of the portfolio, it will be written off by debiting the provision. Loans to customers are presented in the statement of financial position net of provision and uncollected interest. Proceeds from loans and advances previously written off in prior years are credited to "other operating income".

Investments

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

As of the financial statements date, non trading investments are classified either as available for sale investments or held for maturity investments.

i) Available for sale investments:

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. However, interest is calculated using the effective interest rate method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement in 'dividend income' when the Bank's right to receive payment is established.

ii) Held to maturity investments:

Where the Bank has the positive intent and ability to hold financial assets to maturity, they are stated at amortized cost less impairment losses. Premiums and discounts on held to maturity investments are amortized using the effective interest rate method and taken to interest income.

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2-3 Summary of Principal Accounting Policies *(Continued)*

Property, Plant and Equipment, Net of Accumulated Depreciation

Land and buildings comprise mainly branches and offices. All property, plant and equipment used by the Bank is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to other operating expenses during the financial period in which they are incurred.

Freehold land is not depreciated. Other property and equipment items are stated at cost or revalued amounts less accumulated depreciation.

Depreciation is provided on all property, plant and equipment, other than freehold land, at rates calculated to write off the cost or revalued amount, less estimated residual value based on prices prevailing at the date of acquisition, of each asset over its expected useful life using the straight-line method at the rates shown below:

Buildings on freehold land	2%
Vehicles	20%
Furniture and equipment	10%
Computers and software programs	20%
Security vaults	2%
Improvements to leasehold property	Years of lease or estimated useful life whichever is lower.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property, plant and equipment were impaired as at 31 December 2009 (2008: nil).

Gains and losses on property, plant and equipment disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the income statement.

Real Estate Properties Acquired from Customers in Settlement of Loans Pending Sale /Collateral Pending Sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. In accordance with the Banks Law No. 38 of 1998 and the Central Bank of Yemen instructions, assets acquired from customers in settlement of loans are included in the statement of financial position under "debit balances and other assets" using the value at which these assets were acquired less any decline in their value. Any decline is charged to the statement of income.

Social Security

The employees of the Bank are contributing to the social security scheme in accordance with the Republic of Yemen's Social Insurance Law No. 25 of 1991. The Bank's annual contribution is charged to the income statement.

Contingent Liabilities and Commitments

Contingent liabilities and commitments, in which the Bank is a party, are presented off balance sheet, net of margins, under "contra accounts and other commitments" as they do not represent actual assets or liabilities at the reporting date.

Acceptances

Under IAS 39 (revised), acceptances are disclosed on the statement of financial position under "debit balances and other assets" with corresponding liability disclosed under "credit balances and other liabilities". As a result, there is no off balance sheet commitment for acceptances.

Financial guarantees contracts

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee.
Any increase in the liability relating to guarantees is reported in the income statement within other operating expenses.

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2-3 Summary of Principal Accounting Policies *(Continued)*

Financial Assets at Fair Value through Income Statement

This category includes those investments, which are initially recognized at cost and re-measured at fair value. All related realized and unrealized gains or losses are included in the income statement in the period in which they arise. Interest earned or dividends received are included in the interest and dividend income respectively.

Income Tax

Taxation for the year is provided for in accordance with the Income Tax Law No. 31 of 1991 as amended by the Republican Decree Law No. 12 of 1999 and the provision of article no. 85 of the Banks Law No. 38 of 1998.

Zakat

The Bank pays zakat, in accordance with the Zakat Law No. 2 of 1999 to the Zakat General Directorate that decides on its allocation.

Related Party Transactions

Disclosures are made in the financial statements of loans and advances and contingent liabilities to related parties and in particular, to members of the board of directors, senior management and their families and companies in which they own 25% or more of its capital.

Fiduciary Assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these interim financial statements

Impairment of Assets

The Bank, at each reporting date, assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell or cash generation unit's fair value less costs to sell and its value in use and determined for an individual assets, unless the asset does not generate cash inflows that are largely independent of those from other assets or Bank assets.

When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the income statement consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exits, the recoverable amount is estimated.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systemic basis over its remaining useful life.

Offsetting the Financial Assets and Liabilities

Financial assets and financial liabilities are only offset and the resultant net balance is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Bank intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

3 FINANCIAL INSTRUMENTS

The Bank’s financial instruments are represented in financial assets and liabilities. Financial assets include cash balances, current accounts and deposits with banks, treasury bills, certificates of deposit with the Central Bank of Yemen, investments, and loans and advances to customers and banks. Financial liabilities include customers’ deposits and balances due to banks. Also, financial instruments include rights and obligations stated in “contingent liabilities and commitments”.

3-1 Fair Value of Financial Instruments

Based on the valuation of the Bank’s assets and liabilities as stated in the notes to the financial statements, the fair value of the financial instruments do not differ fundamentally from their fair values at the reporting date.

3 FINANCIAL INSTRUMENTS *(CONTINUED)*

3-2 Risk Management of Financial Instruments

The Bank's business involves taking on risks in a targeted manner and managing the risks professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Risk management is carried out by a central treasury department (Bank Treasury) under policies approved by the Board of Directors. Bank Treasury identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.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.
The Bank is exposed to credit risk, liquidity risk, interest rate risk and exchange rate risk.

<u>Credit Risk</u>

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as credit derivatives (credit default swaps), financial guarantees, letters of credit, endorsements and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties and reverse repurchase loans.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralized in a credit risk management team, which reports to the Board of Directors and head of each business unit regularly.

In order to comply with the Central Bank of Yemen circular no. 10 of 1997 pertaining to the management of credit risk exposure, the Bank adheres to certain minimum standards in order to properly manage its credit risk.

In addition to the standards stated in the above-mentioned circular, additional procedures applied by the Bank to minimize the credit risk exposure are:

- preparing credit studies on customers and banks before dealing with them and determining their related credit risk rates;
- obtaining sufficient collateral to minimize the credit risk exposure which may result from financial problems facing customers or banks;
- follow-up and period reviews of customers and banks in order to evaluate their financial positions, credit rating and the required provision for non-performing loans;
- distributing credit portfolio and balances with banks over diversified sectors to minimize concentration of credit risk.

3 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS *(CONTINUED)*

3-2 Risk Management of Financial Instruments *(Continued)*

Credit Risk *(continued)*

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

Assets:	***31 December 2009 YR'000***	*31 December 2008 YR'000*
Cash on hand and reserve balances with the Central Bank of Yemen (excluding cash on hand)	**9,719,946**	8,899,867
Due from Bank	**28,792,299**	25,612,567
Treasury bills	**52,587,188**	46,280,049
Certificates of deposit with Central Bank of Yemen	**-**	10,350,000
Loans and advances to customers, net of provision	**9,369,273**	8,409,302
Available for sale investments, net	**216,324**	205,826
Debit balances and other assets	**1,120,567**	1,739,911
Total assets	**101,805,597**	101,497,522
Contra accounts and other commitments	**26,539,358**	25,749,246
Total credit risk exposure	**128,344,955**	127,246,768

The Bank manages concentration of risk by distributing the portfolio over diversified economic sectors and geographical locations. Note no. 31 shows the distribution of financial instruments over different economic sectors and note no. 32 shows the distribution of financial instruments based on geographical locations.

Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal circumstances. To limit this risk, the Bank's management in addition to its core deposit base, manages assets with liquidity in mind, monitors future cash flows and liquidity on a daily basis and has arranged diversified funding sources.

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

As at 31 December 2009

LIABILITIES	***Less than 3 months YR'000***	***From 3 to 6 months YR'000***	***From 6 months to 1 year YR'000***	***Over 1 year YR'000***	***Total YR'000***
Due to banks	**573,410**	**-**	**-**	**-**	**573,410**
Customers' deposits	**57,091,212**	**9,358,532**	**22,843,233**	**521,443**	**89,814,420**
Credit balances and other liabilities	**1,888,159**	**116,319**	**199,459**	**-**	**2,203,937**
Total liabilities	**59,552,781**	**9,474,851**	**23,042,692**	**521,443**	**92,591,767**

As at 31 December 2008

LIABILITIES	*Less than 3 months YR'000*	*From 3 to 6 months YR'000*	*From 6 months to 1 year YR'000*	*Over 1 year YR'000*	*Total YR'000*
Due to banks	2,076,627	-	-	-	2,076,627
Customers' deposits	57,951,751	12,174,394	17,618,272	127,224	87,871,641
Credit balances and other liabilities	2,358,803	154,659	222,534	-	2,735,996
Total liabilities	62,387,181	12,329,053	17,840,806	127,224	92,684,264

In addition to the above, note no. 29 shows the maturity analysis of assets and liabilities and the net gap between the two.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the future cash flows or the value of the financial instruments. The Bank performs a number of procedures to limit the effect of such risk to the minimum level by:

- correlating interest rates on borrowing with interest rates on lending;
- considering the discount rates for different currencies when determining interest rates;
- controlling the matching of maturity dates of financial assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2009

3 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS *(CONTINUED)*

3-2 Risk Management of Financial Instruments *(Continued)*

Interest Rate Risk *(Continued)*

The table below shows the Bank's exposure to interest rate risks:

As at 31 December 2009	***Less than 3 months***	***From 3 to 6 months***	***From 6 months to 1 year***	***Over 1 year***	***Non Interest Sensitive***	***Total***
ASSETS	***YR'000***	***YR'000***	***YR'000***	***YR'000***	***YR'000***	***YR'000***
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	11,052,309	11,052,309
Due from banks	20,494,597	1,959,060	1,350,590	-	4,988,052	28,792,299
Treasury bills, net	41,164,063	-	11,423,125	-	-	52,587,188
Certificates of deposit with Central Bank of Yemen	-	-	-	-	-	-
Loans and advances to customers, net of provision	2,129,260	437,015	4,750,659	2,052,339	-	9,369,273
Available for sale Investments, net	-	-	-	-	216,324	216,324
Debit balances and other assets	20,581	2,516	1,734	-	1,095,736	1,120,567
Total assets	63,808,501	2,398,591	17,526,108	2,052,339	17,352,421	103,137,960
LIABILITIES AND EQUITY						
Due to banks	-	-	-	-	573,410	573,410
Customers' deposits	27,420,033	11,983,739	20,549,266	-	29,861,382	89,814,420
Credit balances and other liabilities	266,148	116,319	199,459	-	1,622,010	2,203,936
Total liabilities and equity	27,686,181	12,100,058	20,748,725	-	32,056,802	92,591,766
Interest rate sensitivity gap	36,122,320	(9,701,467)	(3,222,617)	2,052,339	(14,704,381)	10,546,194

As at 31 December 2008	*Less than 3 months*	*From 3 to 6 months*	*From 6 months to 1 year*	*Over 1 year*	*Non Interest Sensitive*	*Total*
ASSETS	*YR'000*	*YR'000*	*YR'000*	*YR'000*	*YR'000*	*YR'000*
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	9,933,260	9,933,260
Due from banks	18,567,022	769,090	289,120	1,162,462	4,824,873	25,612,567
Treasury bills, net	45,748,869	-	531,180	-	-	46,280,049
Certificates of deposit with Central Bank of Yemen	10,350,000	-	-	-	-	10,350,000
Loans and advances to customers, net of provision	2,304,100	521,750	2,497,732	3,085,720	-	8,409,302
Available for sale Investments, net	-	-	-	-	205,826	205,826
Debit balances and other assets	243,665	1,925	723	2,909	1,490,689	1,739,911
Total assets	77,213,656	1,292,765	3,318,755	4,251,091	16,454,648	102,530,915
LIABILITIES AND EQUITY						
Due to banks	1,500,000	-	-	-	576,627	2,076,627
Customers' deposits	35,255,688	10,929,628	15,726,324	-	25,960,001	87,871,641
Credit balances and other liabilities	498,883	154,659	222,534	-	1,859,920	2,735,996
Total liabilities and equity	37,254,571	11,084,287	15,948,858	-	28,396,548	92,684,264
Interest rate sensitivity gap	39,959,085	(9,791,522)	(12,630,103)	4,251,091	(11,941,900)	9,846,651

In addition to the above, note no. 30 shows the average interest rates on assets and liabilities applied during the year ended 31 December 2009 and the year ended 31 December 2008.

3 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS *(CONTINUED)*

3-2 Risk Management of Financial Instruments *(Continued)*

Exchange Rate Risk

Due to the nature of the Bank's activities, the Bank deals in different foreign currencies; hence it is exposed to exchange rate risk. The Bank strives to maintain a balanced foreign currencies positions in compliance with the Central Bank of Yemen instructions and the requirements of the Central Bank of Yemen Circular No. 6 of 1998 which specifies that individual foreign currency positions shall not exceed 15% of the Bank's capital and reserves, and that the aggregate open position for all currencies shall not exceed 25% of the Bank's capital and reserves. In order to comply with the Central Bank of Yemen Circular No. 6 of 1998, the Bank regularly monitors its foreign currency positions and sells the excess funds in foreign currencies to the Central Bank of Yemen at the prevailing rates on the date of sale. The significant foreign currency positions of the Bank are shown in note no. 35.

The Bank had the following significant net exposures to foreign currencies:

As at 31 December 2009	***United States Dollar***	***Pound Sterling***	***Euro***	***Saudi Riyal***	***Other currencies***	***Total***
	YR'000	***YR'000***	***YR'000***	***YR'000***	***YR'000***	***YR'000***
Assets	**53,700,546**	**1,854,093**	**3,045,304**	**2,055,365**	**2,510,896**	**63,166,204**
Liabilities	**(55,603,237)**	**(1,855,428)**	**(2,980,224)**	**(1,854,477)**	**(1,454,736)**	**(63,748,102)**
Net currency position	**(1,902,691)**	**(1,335)**	**65,080**	**200,888**	**1,056,160**	**(581,898)**

As at 31 December 2008	*United States Dollar*	*Pound Sterling*	*Euro*	*Saudi Riyal*	*Other currencies*	*Total*
	YR'000	*YR'000*	*YR'000*	*YR'000*	*YR'000*	*YR'000*
Assets	45,681,065	1,893,736	6,042,796	1,833,005	499,277	55,949,879
Liabilities	(45,249,292)	(1,614,157)	(6,057,748)	(1,592,273)	(474,631)	(54,988,101)
Net currency position	431,773	279,579	(14,952)	240,732	24,646	961,778

3-3 Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with external imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios. The capital adequacy is monitored on a quarterly basis by the management of the Bank employing techniques based on the guidelines as implemented by the Central Bank of Yemen for supervisory purposes. The required information is filed with the Central Bank of Yemen on a quarterly basis.

The Central Bank of Yemen requires each bank in Yemen to maintain a 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 ratio of total capital to the customer deposits at or above 5%.

The total capital of the Bank is divided in two tiers:

Tier 1 capital: which comprises the share capital, statutory reserve and general reserve.
Tier 2 capital: which comprises the revaluation reserves and unrealized gains arising from any changes in fair value of available for sale investments.

Investment in any local bank or finance company is deducted from the Tier 1 and Tier 2 capital. The balance of general provision for loans and advances is added to the Tier 1 and Tier 2 capital.

The risk - weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off balance sheet exposure, with some adjustments to reflect the more contingent nature of potential losses.

The Bank complied with all the externally imposed capital requirements to which they are subject.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2009

3 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS *(CONTINUED)*

3-3 Capital Management *(Continued)*

The capital adequacy is calculated as follows:

	31 December 2009 YR' million	*31 December 2008 YR' million*
Tier 1 capital		
Capital	**9,000**	8,500
Statutory reserve	**1,857**	1,641
General reserve	**523**	372
Total Tier 1 capital	**11,380**	10,513
Tier 2 capital		
Property revaluation reserve	**640**	640
Fair value reserve	**55**	46
Total Tier 2 capital	**695**	686
Investment in local banks or financial companies	**(64)**	(62)
General provision balance as at year end	**105**	87
Total qualifying capital	**12,116**	11,224
Risk weighted assets		
On balance sheet	**13,862**	14,303
Off balance sheet	**4,347**	4,625
Total risk - weighted assets	**18,209**	18,928
Capital adequacy ratios		
Tier 1 capital	**62%**	56%
Total capital	**67%**	59%

4 CASH ON HAND AND RESERVE BALANCES WITH THE CENTRAL BANK OF YEMEN

	31 December 2009 YR'000	*31 December 2008 YR'000*
Cash on hand:		
In local currency	**571,925**	510,086
In foreign currencies	**760,438**	523,307
Cheques purchased, net	**32,624**	21,327
Total cash on hand	**1,364,987**	1,054,720
Reserve balances with the Central Bank of Yemen:		
In local currency	**3,694,819**	3,908,953
In foreign currencies	**5,992,503**	4,969,587
Total reserve balances with the Central Bank of Yemen	**9,687,322**	8,878,540
Total cash on hand and reserve balances with the Central Bank of Yemen	**11,052,309**	9,933,260

In accordance with the Yemeni Banks Law No. 38 of 1998, the Bank is required to maintain statutory deposits with the Central Bank of Yemen at stipulated percentages on local currency and foreign currencies of its demand, time and other deposits.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2009

5 DUE FROM BANKS

	31 December 2009 YR'000	*31 December 2008 YR'000*
Due from the Central Bank of Yemen and other local banks		
Current accounts with the Central Bank of Yemen:		
In local currency	**3,080,770**	3,314,510
In foreign currencies	**354,991**	794,160
Total due from the Central Bank of Yemen	**3,435,761**	4,108,670
Current accounts with other local banks	**674**	1,974
Islamic investment deposits with two local banks	**430,121**	400,000
Total due from the Central Bank of Yemen and other local banks	**3,866,556**	4,510,644
Due from foreign banks and other financial institutions		
Current and demand account balances	**5,526,861**	4,816,558
Provision for outstanding reconciling items	**(21,118)**	(20,272)
Time deposits	**19,420,000**	16,305,637
Total due from foreign banks and other financial institutions	**24,925,743**	21,101,923
Total due from banks	**28,792,299**	25,612,567

Current accounts and time deposits with foreign banks carry variable interest rates (0.04% to 5.00%) while current accounts with the Central Bank of Yemen and other local banks do not carry any interest.

6 TREASURY BILLS, NET

	31 December 2009 YR'000	*31 December 2008 YR'000*
Treasury bills due within:		
42 days	**1,258,475**	-
49 days	**-**	101,902
62 days	**-**	2,150,474
90 days	**31,890,049**	38,411,030
182 days	**8,776,220**	537,410
364 days	**11,986,540**	6,343,870
Total nominal value of treasury bills	**53,911,284**	47,544,686
Unamortized discount due within:		
42 days	**(10,558)**	(-)
49 days	**(-)**	(1,519)
62 days	**(-)**	(43,308)
90 days	**(494,416)**	(707,312)
182 days	**(255,707)**	(27,747)
364 days	**(563,415)**	(484,751)
Net book value of treasury bills	**52,587,188**	46,280,049

The treasury bills and repurchased treasury bills carry interest rates ranging from 12.54% to 15.41% (31 December 2008: 13.97% to 15.92%). In accordance with the instructions of the Central Bank of Yemen, treasury bills, which mature within a period not exceeding three months, are considered as part of cash and cash equivalent assets.

7 CERTIFICATES OF DEPOSIT WITH THE CENTRAL BANK OF YEMEN

	31 December 2009 YR'000	*31 December 2008 YR'000*
Certificates of deposit – 91 days	**-**	10,350,000
Total certificates of deposit with the Central Bank of Yemen	**-**	10,350,000

Certificate of deposits carries interest rates varying from 13.06% to 15.89%. In accordance with the instructions of the Central Bank of Yemen, certificates of deposit are considered as part of cash and cash equivalent assets.

8 LOANS AND ADVANCES TO CUSTOMERS, NET OF PROVISION

	31 December 2009 YR'000	*31 December 2008 YR'000*
Loans and advances to customers in the private sector:		
Overdraft facilities	**6,919,650**	5,654,601
Short term loans	**5,806,624**	5,112,777
Total loans and advances to customers in the private sector	**12,726,274**	10,767,378
Provision for losses on non performing loans and advances (note 8-a)	**(2,951,487)**	(2,189,068)
Suspended interest (note 8-b)	**(405,514)**	(169,008)
Total provision for losses on non performing loans and advances and suspended interest	**(3,357,001)**	(2,358,076)
Net loans and advances to customers	**9,369,273**	8,409,302

Gross non-performing loans and advances as at 31 December 2009 amounted to YR 3,442,171 thousand (31 December 2008: YR 2,789,807 thousand). The breakup of the above amount is as follows:

	31 December 2009 YR'000	*31 December 2008 YR'000*
Substandard debts	**204,263**	469,331
Doubtful debts	**71,560**	336,241
Bad debts	**3,166,348**	1,984,235
Total gross non performing loans and advances	**3,442,171**	2,789,807

8-a) Provision for Losses on Non-Performing Loans and Advances

In accordance with article no. 85 of the Banks Law No. 38 of 1998, which came into effect on 27 December 1998, and Article 9 - (j) of the Income Tax Law No. 31 of 1991 as amended by Republican Decree Law No. 12 of 1999, any provision for losses on loans and advances made by a bank in compliance with the regulations of the Central Bank of Yemen in this respect, are not subject to the provisions of any income tax law and are allowable as a deduction in arriving at the taxable income.

Details of movements in the provision for possible losses on loans and advances during the period / year were as follows:

	----31 December 2009----			*----31 December 2008----*		
	Specific YR'000	***General YR'000***	***Total YR'000***	*Specific YR'000*	*General YR'000*	*Total YR'000*
Balance at 1 January	**2,101,653**	**87,415**	**2,189,068**	1,673,333	131,616	1,804,949
Revaluation of opening balances in foreign currencies	**36,210**	**819**	**37,029**	1,922	159	2,081
Amount utilized during the year.	**(5,896)**	**(-)**	**(5,896)**	(2,152)	-	(2,152)
Adjusted opening balances	**2,131,967**	**88,234**	**2,220,201**	1,673,103	131,775	1,804,878
Amounts recovered of loans previously written off (note 22)	**(317,207)**	**(13,103)**	**(330,310)**	(409,893)	(61,866)	(471,759)
Provision for the year (note 24)	**1,031,949**	**29,647**	**1,061,596**	838,443	17,506	855,949
Charged to the income statement	**714,742**	**16,544**	**731,286**	428,550	(44,360)	384,190
Balance at end of year	**2,846,709**	**104,778**	**2,951,487**	2,101,653	87,415	2,189,068

The total of the loan loss provision as at 31 December 2009 is based on amount of provision calculated by the Central Bank of Yemen

Management has decided to provide for the general provision for performing loans and contingencies including watch loans at the rate of 2% (2008: 2%).

The Bank has, during the year, written-off fully provided loans and advances amounting to YR 5,896 thousands (2008: YR 2,152 thousands) against impairment provisions where all possible actions for recoveries have been exhausted and the Bank's management believes the possibility of recoveries is remote. The Bank's management, however, continues to pursue the recovery of these loans through all possible means and any future recovery from these written-off loans will be recognised in the income statement.

8-b) Suspended Interest

This represents interest on non-performing loans and advances in accordance with the Central Bank of Yemen regulations and which is recognised as revenue only when collected.

8 LOANS AND ADVANCES TO CUSTOMERS, NET OF PROVISION *(CONTINUED)*

8-b) Suspended Interest *(Continued)*

	31 December 2009 YR'000	*31 December 2008 YR'000*
Balance at 1 January	**169,008**	89,988
Exchange differences for the year	**2,457**	373
Amounts written-off during the year	**(-)**	(917)
Recovered during the year	**(1,028)**	(5,900)
Suspended during the year	**235,077**	85,464
Balance at end of year	**405,514**	169,008

9 AVAILABLE FOR SALE INVESTMENTS, NET

These comprise investments, available for sale, in the following banks and financial institution:

	Ownership Percentage %	*No. of shares of USD 50 each*	***31 December 2009 YR'000***	*31 December 2008 YR'000*
Unquoted investments in shares of UBAF Group:				
UBAF - Curacao - A Shares of US $ 1 each	0.788	29,944	**310,385**	17,982
UBAF - Curacao - B Shares of US $ 1 each	0.782	4,693	**48,645**	2,818
UBAF - Curacao - C Shares of US $ 1 each	1.221	10,565	**109,511**	6,344
Total investment in shares in UBAF Group		45,202	**468,541**	27,144
Other unquoted investments:				
ALUBAF Arab International Bank (BSC) – Bahrain (note 9-a)	0.344		**73,127**	61,073
Arab Financial Services Company - Bahrain (note 9-b)	0.167		**20,586**	21,388
Yemen Financial Services Company - Yemen (note 9-c)	10.000		**64,411**	62,165
Yemen Mobile Company for Telecommunication - Yemen (note 9-d)	0.139		**61,200**	61,200
Total other unquoted investments			**219,324**	205,826
Total available for sale investments			**687,865**	232,970
Provision for impairment (note 9-e)			**(471,541)**	(27,144)
Net book value of investments available for sale			**216,324**	205,826

9-a) Al UBAF Arab International Bank (BSC) - Bahrain

The fair value of the full investment in Al UBAF Arab International Bank (BSC) - Bahrain is based on the book value of shares as per the company's latest audited financial statement (i.e. for the year ended 31 December 2008) which amounted to US$ 51.26 per share.

9-b) Arab Financial Services Company - Bahrain

The fair value of the investment in Arab Financial Services Company - Bahrain is based on the book value of shares as per the company's latest audited financial statement (i.e. for the year ended 31 December 2008) which amounted to US$ 9.93 per share (2008: US$ 10.69 per share).

9-c) Yemen Financial Services Company - Yemen

The Bank has contributed a sum of USD 310 thousands to the capital of Yemen Financial Services Company (Closed Yemeni Shareholding Company), which had been established in joint venture with a number of other local banks. The share capital of YFSC is USD 3 million.

9-d) Yemen Mobile Company for Telecommunication - Yemen

The Bank has purchased 120,000 shares of YR 500 each for a sum of YR 60 million of Yemen Mobile Company for Telecommunication (Yemeni Shareholding Company). The total share capital of this Company is YR 43,262 million. The Bank paid YR 1,200,000 as acquisition costs which have been added to cost in accordance with IAS 39: Financial Instrument - Recognition and Measurement.

9-e) Provision for Impairment

Since no dividends were received from the investments in UBAF - Curacao during the last few years and no dividends are expected to be received in the coming years, a full impairment provision was taken for the balances of those investments because their net present value is nil.

10 DEBIT BALANCES AND OTHER ASSETS

	31 December 2009 YR'000	*31 December 2008 YR'000*
Prepaid expenses and other debit balances	**7,838**	10,940
Interest receivable	**24,937**	249,222
Capital costs of new branches under construction	**147,635**	199,093
Real estate properties acquired from customers, net of provision	**153,936**	162,674
Al Amal Bank for Microfinance –Yemen	**10,000**	10,000
Al Tadhamon Microfinance – Yemen	**1,000**	1,000
Customer acceptances	**732,395**	1,057,029
Sundry debit balances, net of provision	**42,826**	49,953
Total debit balances and other assets	**1,120,567**	1,739,911

The balance of real estate properties acquired from customers is net of a provision of YR 9,219 thousand (2008: YR 480 thousand). The valuation of these properties is in accordance with the instructions of the Central Bank of Yemen.

The shareholdings in Al Amal Bank for Microfinance - Yemen and Al Tadhamon Microfinance - Yemen have been included in the "debit balance and other assets" rather than "available for sale investments" as management is of the opinion that these amounts would be fully refundable in the future.

In accordance with IAS 39 (revised), acceptances are disclosed on the statement of financial position under "debit balances and other assets" and the corresponding liability is disclosed under "credit balances and other liabilities".

11 PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION

	Freehold land and buildings YR'000	*Leasehold improvements YR'000*	*Furniture & equipment YR'000*	*Motor vehicles YR'000*	*Swift & computers YR'000*	*Total YR'000*
Cost or valuation						
At 31 December 2007	1,687,358	64,962	291,257	110,054	173,661	2,327,292
Additions during the year	228,144	11,167	50,403	11,462	47,511	348,687
Disposal during the year	(8,421)	-	(507)	-	-	(8,928)
At 31 December 2008	**1,907,081**	**76,129**	**341,153**	**121,516**	**221,172**	**2,667,051**
Additions during the year	**162,563**	**16,479**	**29,307**	**-**	**9,479**	**217,828**
Disposal during the year	**-**	**(85)**	**-**	**-**	**-**	**(85)**
At 31 December 2009	**2,069,644**	**92,523**	**370,460**	**121,516**	**230,651**	**2,884,794**
Accumulated depreciation						
At 31 December 2007	65,117	27,277	136,774	55,020	125,230	409,418
Charge for the year	12,839	6,755	26,082	17,592	18,188	81,456
On disposal for the year	(454)	-	(6)	-	-	(460)
At 31 December 2008	77,502	34,032	162,850	72,612	143,418	490,414
Charge for the year	**15,391**	**7,419**	**28,656**	**17,823**	**21,816**	**91,105**
At 31 December 2009	**92,893**	**41,451**	**191,506**	**90,435**	**165,234**	**581,519**
Net book value						
At 31 December 2009	**1,976,751**	**51,072**	**178,954**	**31,081**	**65,417**	**2,303,275**
At 31 December 2008	1,829,579	42,097	178,303	48,904	77,754	2,176,637

Property, plant and equipment depreciation is calculated on the basis of the rates set out in the Council of Ministers' Resolution no. 144 of 1999 in that regard. Freehold land, land leased from the Government and buildings on freehold and leasehold were revalued at their open market value for existing use on 1 December 1999, effective from 31 December 1999, by an independent professional real estate firm. In accordance with IAS 16, the cost and related accumulated depreciation as at 31 December 1999 were eliminated and the revalued amount has been considered to be the new gross book carrying amount.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2009

12 DUE TO BANKS

	31 December 2009 YR'000	*31 December 2008 YR'000*
Current and demand accounts:		
Local banks	**-**	1,501,408
Foreign banks	**573,410**	575,219
Total due to banks	**573,410**	2,076,627

13 CUSTOMERS' DEPOSITS

	31 December 2009 YR'000	*31 December 2008 YR'000*
Current accounts	**18,094,564**	16,951,276
Savings accounts	**27,826,691**	26,456,386
Term deposits	**35,487,424**	37,961,229
Other deposit margins	**1,780,359**	419,636
Cash deposits for documentary letters of credit, guarantees and others	**6,625,382**	6,083,114
Total customers' deposits	**89,814,420**	87,871,641

14 CREDIT BALANCES AND OTHER LIABILITIES

	31 December 2009 YR'000	*31 December 2008 YR'000*
Accrued interest payable	**581,927**	876,076
Unclaimed balances (note 14-a)	**201,142**	193,442
Provision for employees' leave pay	**61,970**	59,541
Provision for off balance sheet items (note 14-b)	**115,856**	114,485
Employees' share in profit	**77,781**	90,613
Other provision	**18,898**	28,000
Provision for contingent liabilities (note 34)	**59,392**	58,201
Customer acceptances	**732,395**	1,057,029
Sundry credit balances	**354,575**	258,609
Total credit balances and other liabilities	**2,203,936**	2,735,996

14-a) Unclaimed Balances

This amount includes balances that are over 15 years old and have not been claimed by the beneficiaries. The increase in the amount is due to the revaluation of the balances in foreign currencies at the year end rate. Management regularly reviews the likelihood of these amounts being claimed and based on the outcome of such review; it considers the amount that should be transferred to the Ministry of Finance in accordance with the relevant article in the Banks Law No. 38 of 1998.

14-b) Provision for Off-balance sheet Sheet Items

	31 December 2009 YR'000	*31 December 2008 YR'000*
Balance at 1 January	**114,485**	281,403
Revaluation of opening balance in foreign currencies	**3,881**	460
Provision charged during the year (note 24)	**86,798**	82,903
Provision written back during the year (note 22)	**(89,308)**	(250,281)
Balance at end of the year	**115,856**	114,485

15 INCOME TAX PAYABLE

Amounts due to the Tax Authority	***31 December 2009 YR'000***	*31 December 2008 YR'000*
Balance at 1 January	**824,041**	1,260,109
Charged for the year in the income statement (note 15-a)	**774,586**	824,041
Total amounts due to the Tax Authority	**1,598,627**	2,084,150
Amount paid during the year	**(824,041)**	(1,260,109)
Total income tax payable	**774,586**	824,041

15-a) Charge For The Period

The tax provision for the year has been calculated on the basis of 35% of the profit for the year.

15-b) Prior Year Tax Assessments

The Bank received on 9 June 2009 the final tax clearance for the income tax liability for the financial year ended 31 December 2008.

16 EQUITY

16-a) Authorized Capital

The authorized share capital amounting YR 10,000 million (2008: YR 10,000 million) consists of 10,000 thousand shares of YR 1,000 par value each (2008: of 10,000 thousand shares of YR 1,000 par value each).

16-b) Declared and Paid Up Capital

The declared and paid up share capital amounting YR 9,000 million (2008: YR 8,500 million) consists of 9,000 thousand shares of YR 1,000 par value each (2008: 8,500 thousand shares of YR 1,000 par value each).

16-c) Profit Distribution

In accordance with the provisions of the Public Corporations, Establishments and Companies Law No. 35 of 1991, the annual profit of the Bank shall be allocated as follows:

- 15% to statutory reserve;
- 15% to general reserve;
- 65% to the Government for its share of profit;
- 2% to employee's incentives; and
- 3% to employees' social fund.

16-d) Surplus on Revaluation of Property Reserve

The difference between the revalued amounts of the freehold land and the buildings and their book value as at 31 December 1999 had been credited to this account and included in equity.

16-e) Cumulative Changes in Fair Value Reserve

In accordance with the provisions of IAS 39: Financial Instruments - Recognition and Measurement, the differences between the fair values and the book values of the "available for sale" investments are recognized in the cumulative changes in fair value until they are sold, collected, disposed off, or until they are determined to be impaired, at which time the cumulative gain or loss previously recognized is included in the income statement

17 CONTRA ACCOUNTS AND OTHER COMMITMENTS, NET

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the Bank's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit and guarantees commit the Bank to make payments on behalf of customers' contingent upon the failure of the customer to perform under the terms of the contract.

17 CONTRA ACCOUNTS AND OTHER COMMITMENTS, NET *(CONTINUED)*

The commitments on behalf of customers for which there were corresponding customer liabilities, as of the reporting date, consisted of the following:

As at 31 December 2009	***Gross commitments YR'000***	***Covered by margin YR'000***	***Net commitments YR'000***
Documentary letters of credit	**14,338,358**	**5,104,701**	**9,233,657**
Letters of guarantee - customers	**5,255,795**	**1,493,966**	**3,761,829**
Letters of guarantee - correspondent banks	**6,775,468**	**-**	**6,775,468**
Credit cards	**67,583**	**11,392**	**56,191**
Cheques purchased	**102,154**	**15,323**	**86,831**
Total contra accounts and other commitments	**26,539,358**	**6,625,382**	**19,913,976**

As at 31 December 2008	*Gross commitments YR'000*	*Covered by margin YR'000*	*Net commitments YR'000*
Documentary letters of credit	12,494,585	4,571,414	7,923,171
Letters of guarantee - customers	5,924,769	1,491,482	4,433,287
Letters of guarantee - correspondent banks	7,241,521	-	7,241,521
Credit cards	66,627	16,957	49,670
Cheques purchased	21,744	3,262	18,482
Total contra accounts and other commitments	25,749,246	6,083,115	19,666,131

18 INTEREST ON LOANS AND ADVANCES AND DUE FROM BANKS

	2009 YR'000	*2008 YR'000*
Interest on loans and advances to customer and banks:		
Loans and advances to customers	**1,230,593**	1,155,697
Other facilities	**1,414**	10,992
Murabaha transaction	**73**	-
Total interest on loans and advances to customers and banks	**1,232,080**	1,166,689
Interest on accounts with foreign banks:		
Current accounts	**3,021**	56,208
Call accounts	**341**	1,205
Deposits	**169,674**	518,450
Total interest on accounts with foreign banks	**173,036**	575,863
Interest on accounts with local banks:		
Reserves balances with the Central Bank of Yemen	**-**	146,628
Total interest on accounts with banks	**173,036**	722,491
Total interest on loans and advances and due from banks	**1,405,116**	1,889,180

19 COST OF DEPOSITS

	2009 YR'000	*2008 YR'000*
Interest on current and saving accounts	**1,583,204**	2,004,892
Interest on time deposits	**3,444,764**	3,606,736
Total cost of deposits	**5,027,968**	5,611,628

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2009

20 COMMISSIONS AND FEE INCOME ON BANKING SERVICES

	2009	2008
Commissions on:	YR'000	
Documentary letters of credits	172,045	158,548
Letters of guarantee	202,674	190,515
Transfer of funds	30,265	33,852
Acceptances	10,358	13,304
Cheques	334,666	353,542
Fees on:		
Banking services	10,331	8,196
Other services	49,256	47,157
Total commissions and fee income on banking services	809,595	805,114

21 GAIN / (LOSS) ON FOREIGN CURRENCY TRANSACTIONS

	2009 YR'000	2008 YR'000
Revaluation differences on foreign currency balances	(54,326)	(199,186)
Gain on foreign exchange trading transactions	67,327	77,259
Total gain / (loss) on foreign currency transactions	13,001	(121,927)

22 OTHER OPERATING INCOME

	2009 YR'000	2008 YR'000
Provision for losses on loans no longer required (note 8-a)	330,310	471,759
Provision for off-balance sheet items no longer required (note 14-b)	89,308	250,281
Provision for other assets no longer required	-	40,000
Provision for available for sale investments no longer required (note 9-e)	-	2,067
Provision for outstanding reconciling item no longer required (BCCI- under liquidation)	-	2,395
Sundry income	13,645	63,861
Total other operating income	433,263	830,363

23 GENERAL AND ADMINISTRATION EXPENSES

	2009 YR'000	2008 YR'000
Salaries, wages and related costs	1,026,144	946,527
Depreciation of property, plants and equipment (note 11)	91,105	81,456
Rent	35,720	34,844
Electricity and water	53,012	37,369
Repairs and maintenance	31,092	31,523
Telephone, telex and postage	23,650	26,615
Transportation and allowances	31,353	34,806
Promotions and publications	47,370	40,804
Computer maintenance	534	192
Training	36,174	17,514
Taxes and government fees	40,715	74,735
Donations	13,057	14,001
Stationery and printing supplies	26,845	25,065
Consultancy fees for programme for development and improvement of the Bank	55,848	61,420
Other general and administration expenses	83,150	99,984
Total general and administration expenses	1,595,768	1,526,855

The number of employees with the Bank as on 31 December 2009 was 626 (31 December 2008: 637 employees).

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2009

24 PROVISIONS

	2009	*2008*
	YR'000	*YR'000*
Provision for losses on loans and advances (note 8-a)	**1,061,596**	855,949
Provision for off-balance sheet items (note 14-b)	**86,798**	82,903
Other provisions	**40,799**	30,619
Total provisions	**1,189,193**	969,471

25 ZAKAT

	2009	*2008*
	YR'000	*YR'000*
Zakat paid for the year	**85,000**	75,000
Total Zakat	**85,000**	75,000

26 BASIC EARNINGS PER SHARE

		2009	*2008*
Profit for the year	*YR'000*	**1,438,517**	1,530,362
Weighted average number of shares	Share	**8,750,000**	8,000,000
Basic earnings per share	YR	**164**	191

27 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank conducts transactions with certain of its directors, senior management and their families and companies in which they own 25% or more of its capital and who were customers of the Bank during the year. The terms of these transactions are approved by the Bank's management.

The year-end balances included in the financial statements are as follow:

	31 December 2009	*31 December 2008*
	YR'000	*YR'000*
Board members and parties related to them:		
Loans and advances, gross	**16,300**	19,722
Customers' deposits	**11,528**	12,761

	2009	*2008*
	YR'000	*YR'000*
Interest income for the year	**1,165**	653
Interest expense for the year	**375**	691

28 CASH AND CASH EQUIVALENT

	31 December 2009	*31 December 2008*
	YR'000	*YR'000*
Cash on hand and reserve balances with the Central Bank of Yemen (note 4)	**11,052,309**	9,933,260
Due from banks (note 5)	**28,792,299**	25,612,567
Treasury bills and certificates of deposit with the Central Bank of Yemen (note 6 and note 7)	**52,587,188**	56,630,049
Reserve balances with the Central Bank of Yemen (note 4)	**(9,687,322)**	(8,878,540)
Treasury bills maturing after three months, net of unamortized discount (note 29)	**(11,423,125)**	(531,180)
Due from banks maturing after three months (note 29)	**(3,726,344)**	(2,220,672)
Total cash and cash equivalents	**67,595,005**	80,545,484

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2009

29 MATURITIES OF ASSETS AND LIABILITIES

As at 31 December 2009

	Less than 3 months	***From 3 to 6 months***	***From 6 months to 1 year***	***Over 1 year***	***Total***
ASSETS	***YR'000***	***YR'000***	***YR'000***	***YR'000***	***YR'000***
Cash on hand and reserve balances with the Central Bank of Yemen	**11,052,309**	**-**	**-**	**-**	**11,052,309**
Due from banks	**25,065,955**	**2,292,830**	**1,350,590**	**82,924**	**28,792,299**
Treasury bills, net	**41,164,063**	**-**	**11,423,125**	**-**	**52,587,188**
Certificates of deposit with the Central Bank of Yemen	**-**	**-**	**-**	**-**	**-**
Loans and advances to customers, net of provision	**2,129,260**	**437,015**	**4,750,659**	**2,052,339**	**9,369,273**
Available for sale Investments, net	**-**	**-**	**-**	**216,324**	**216,324**
Total assets	**79,411,587**	**2,729,845**	**17,524,374**	**2,351,587**	**102,017,393**
LIABILITIES					
Due to banks	**573,410**	**-**	**-**	**-**	**573,410**
Customers' deposits	**57,091,212**	**9,358,532**	**22,843,233**	**521,443**	**89,814,420**
Total liabilities	**57,664,622**	**9,358,532**	**22,843,233**	**521,443**	**90,387,830**
Net Gap	**21,746,965**	**(6,628,687)**	**(5,318,859)**	**1,830,144**	**11,629,563**

As at 31 December 2008

	Less than 3 months	*From 3 to 6 months*	*From 6 months to 1 year*	*Over 1 year*	*Total*
ASSETS	*YR'000*	*YR'000*	*YR'000*	*YR'000*	*YR'000*
Cash on hand and reserve balances with the Central Bank of Yemen	9,933,260	-	-	-	9,933,260
Due from banks	23,391,895	769,090	289,120	1,162,462	25,612,567
Treasury bills, net	45,748,869	-	531,180	-	46,280,049
Certificates of deposit with the Central Bank of Yemen	10,350,000	-	-	-	10,350,000
Loans and advances to customers, net of provision	2,304,100	521,750	2,497,732	3,085,720	8,409,302
Available for sale Investments, net	-	-	-	205,826	205,826
Total assets	91,728,124	1,290,840	3,318,032	4,454,008	100,791,004
LIABILITIES					
Due to banks	2,076,627	-	-	-	2,076,627
Customers' deposits	57,951,751	12,174,394	17,618,272	127,224	87,871,641
Total liabilities	60,028,378	12,174,394	17,618,272	127,224	89,948,268
Net Gap	31,699,746	(10,883,554)	(14,300,240)	4,326,784	10,842,736

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2009

30 AVERAGE INTEREST RATES ON ASSETS AND LIABILITIES

As at 31 December 2009

ASSETS	***Yemeni Riyal %***	***US Dollar %***	***Saudi Riyal %***	***Sterling Pound %***	***Euro %***	***United Arab Emirates Dirham***
Reserve balances with the Central Bank of Yemen	**-**	**-**	**-**	**-**	**-**	**-**
Due from banks:						
Current accounts						
Time deposits	**-**	**1.48**	**0.58**	**0.73**	**0.71**	**5.75**
Treasury bills, net	**12.97**	**-**	**-**	**-**	**-**	**-**
Certificates of deposit with the Central Bank of Yemen						
Loans and advances to customers, net of provision	**17.50**	**8.50**	**-**	**-**	**-**	**-**
LIABILITIES						
Customers' deposits	**10.00**	**0.37**	**0.31**	**0.31**	**0.31**	**-**

As at 31 December 2008

ASSETS	*Yemeni Riyal %*	*US Dollar %*	*Saudi Riyal %*	*Sterling Pound %*	*Euro %*	*United Arab Emirates Dirham*
Reserve balances with the Central Bank of Yemen	-	-	-	-	-	-
Due from banks:						
Current accounts	-	0.57	-	2.56	2.50	-
Time deposits	-	0.75	2.85	3.20	2.68	-
Treasury bills, net	14.96	-	-	-	-	-
Certificates of deposit with the Central Bank of Yemen	14.86	-	-	-	-	-
Loans and advances to customers, net of provision	17.50	8.50	-	-	-	-
LIABILITIES						
Customers' deposits	13.00	1.95	1.14	2.20	1.45	-

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2009

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

As at 31 December 2009

ASSETS	*Manufacturing YR'000*	*Agriculture YR'000*	*Trade YR'000*	*Services YR'000*	*Financing YR'000*	*Personal YR'000*	*Total YR'000*
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	11,052,309	-	11,052,309
Due from banks	-	-	-	-	28,792,299	-	28,792,299
Treasury bills, net	-	-	-	-	52,587,188	-	52,587,188
Certificates of deposit with the Central Bank of Yemen	-	-	-	-	-	-	-
Loans and advances to customers, net of provision	691,931	-	5,576,570	41,421	18,314	3,041,037	9,369,273
Available for sale Investments, net	-	-	-	-	216,324	-	216,324
Total assets	691,931	-	5,576,570	41,421	92,666,434	3,041,037	102,017,393
LIABILITIES							
Due to banks	-	-	-	-	573,410	-	573,410
Customers' deposits	1,266,970	193,429	17,854,699	2,637,481	105,064	67,756,777	89,814,420
Total liabilities	1,266,970	193,429	17,854,699	2,637,481	678,474	67,756,777	90,387,830
Contra accounts and other commitments	666,059	36,057	21,481,945	664,750	1,626,237	2,064,310	26,539,358

As at 31 December 2008

ASSETS	*Manufacturing YR'000*	*Agriculture YR'000*	*Trade YR'000*	*Services YR'000*	*Financing YR'000*	*Personal YR'000*	*Total YR'000*
Cash on hand and reserve balances with the Central Bank of Yemen	-	-	-	-	9,933,260	-	9,933,260
Due from banks	-	-	-	-	25,612,567	-	25,612,567
Treasury bills, net	-	-	-	-	46,280,049	-	46,280,049
Certificates of deposit with the Central Bank of Yemen	-	-	-	-	10,350,000	-	10,350,000
Loans and advances to customers, net of provision	730,332	-	4,450,826	22,623	35,479	3,170,042	8,409,302
Available for sale Investments, net	-	-	-	-	205,826	-	205,826
Total assets	730,332	-	4,450,826	22,623	92,417,181	3,170,042	100,791,004
LIABILITIES							
Due to banks	-	-	-	-	2,076,627	-	2,076,627
Customers' deposits	755,770	145,156	9,907,497	4,098,002	635,080	72,330,136	87,871,641
Total liabilities	755,770	145,156	9,907,497	4,098,002	2,711,707	72,330,136	89,948,268
Contra accounts and other commitments	1,335,594	76,630	18,137,768	935,209	1,954,530	3,309,515	25,749,246

32 DISTRIBUTION OF ASSETS, LIABILITIES, CONTINGENT LIABILITIES AND COMMITMENTS BASED ON GEOGRAPHICAL LOCATIONS

As at 31 December 2009

ASSETS	***Republic of Yemen YR'000***	***United States of America YR'000***	***Europe YR'000***	***Asia YR'000***	***Africa YR'000***	***Total YR'000***
Cash on hand and reserve balances with the Central Bank of Yemen	**11,052,309**	**-**	**-**	**-**	**-**	**11,052,309**
Due from banks	**3,866,556**	**3,482,274**	**12,776,677**	**8,558,064**	**108,728**	**28,792,299**
Treasury bills, net	**52,587,188**	**-**	**-**	**-**	**-**	**52,587,188**
Certificates of deposit with Central Bank of Yemen	**-**	**-**	**-**	**-**	**-**	**-**
Loans and advances to customers, net of provision	**9,369,273**	**-**	**-**	**-**	**-**	**9,369,273**
Available for sale Investments, net	**122,611**	**-**	**-**	**93,713**	**-**	**216,324**
Total assets	**76,997,937**	**3,482,274**	**12,776,677**	**8,651,777**	**108,728**	**102,017,393**
LIABILITIES						
Due to banks	**-**	**-**	**-**	**573,410**	**-**	**573,410**
Customers' deposits	**89,814,420**	**-**	**-**	**-**	**-**	**89,814,420**
Total liabilities	**89,814,420**	**-**	**-**	**573,410**	**-**	**90,387,830**

As at 31 December 2008

ASSETS	*Republic of Yemen YR'000*	*United States of America YR'000*	*Europe YR'000*	*Asia YR'000*	*Africa YR'000*	*Total YR'000*
Cash on hand and reserve balances with the Central Bank of Yemen	9,933,260	-	-	-	-	9,933,260
Due from banks	4,510,644	2,601,576	10,714,485	7,780,434	5,428	25,612,567
Treasury bills, net	46,280,049	-	-	-	-	46,280,049
Certificates of deposit with Central Bank of Yemen	10,350,000	-	-	-	-	10,350,000
Loans and advances to customers, net of provision	8,409,302	-	-	-	-	8,409,302
Available for sale Investments, net	123,365	-	-	82,461	-	205,826
Total assets	79,606,620	2,601,576	10,714,485	7,862,895	5,428	100,791,004
LIABILITIES						
Due to banks	1,501,408	-	-	575,219	-	2,076,627
Customers' deposits	87,871,641	-	-	-	-	87,871,641
Total liabilities	89,373,049	-	-	575,219	-	89,948,268

33 TRUST ACTIVITIES

The Bank does not hold nor manage assets for or on behalf of other parties except for the housing project, which is managed on behalf of the Government.

34 CONTINGENT ASSETS AND LIABILITIES

The Bank has filed a number of legal cases with the Public Fund Court and the Commercial Preliminary Court against former employees and customers of the Bank relating to irregularities and default in settlements of amounts due respectively. Where there are legal cases filed against the Bank at the respective courts, management fully and/or partly provided for such cases in the interim financial statements. In some of the cases, although court decisions were made in favour of the Bank, their executions have not been effected, whereas the other cases are still pending in the courts.

35 SIGNIFICANT FOREIGN CURRENCIES' POSITIONS

The Central Bank of Yemen circular no. 6 of 1998 establishes limits for positions in individual foreign currencies as well as an aggregate limitation for all currencies. These limits are 15% and 25% of capital and reserves. The Bank had the following significant net exposures denominated in foreign currencies:

	------31 December 2009------		*------31 December 2008------*	
	%	***YR'000***	*%*	*YR'000*
United States Dollar	**(15.76)**	**(1,902,691)**	3.86	431,773
Pound Sterling	**(0.01)**	**(1,335)**	2.05	279,579
Euro	**0.54**	**65,080**	(0.13)	(14,952)
Saudi Riyal	**1.66**	**200,888**	2.15	240,732
Swiss Franc	**0.11**	**13,083**	0.11	12,884
Japan Yen	**0.10**	**12,455**	0.06	7,057
United Arab Emirates Dirham	**8.54**	**1,030,604**	0.04	4,689
Other	**0.00**	**18**	0.00	16
Aggregate foreign currency positions	**(4.82)**	**(581,898)**	8.59	961,778

The US Dollar exchange rate as at 31 December 2009 was 207.31 YR/USD (31 December 2008: 200.08 YR/USD).

36 CAPITAL COMMITMENTS

Capital commitments at 31 December 2009 amounted to YR 446 million (31 December 2008: YR 540 million).

37 PROGRAMME FOR THE MODERNISATION AND DEVELOPMENT OF THE BANK

During the year 2009, the Bank has accomplished implementing most stages related to part one of the modernization and development programme. The remaining stage left is the implementation stage related to carrying out the structuring and technology part (second stage of the programme).

In that regard, the Bank has accomplished, during the year 2009, the bids procedures concerning the structuring and technology part in which the banking equipment systems and programmes will be procured, installed and operated in order to convoy with modern banking industry seeking to accomplish the programme's aims and goals and provide modern banking services and products to its clients and the public.

The Bank is financing the cost of both parts of this programme from its own financial resources.

38 COMPARATIVE FIGURES

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

39 DATE OF AUTHORIZATION

These financial statements have been approved for issue by the Bank's Board of Directors on 5 April 2010 and to be presented to H.E. Minister of Finance as the representative of the Government that is the owner of all equity.