البنك الأهلي اليمني

National Bank Of Yemen

ADEN
REPUBLIC OF YEMEN
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

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Contents

Dahman & Co.

Accountants • Auditors • Consultants

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INDEPENDENT AUDITORS' REPORT
TO H.E. THE MINISTER OF FINANCE
ON THE NATIONAL BANK OF YEMEN

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the National Bank of Yemen (The Bank) which comprise the statement of financial position as at 31 December 2010, the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the National Bank of Yemen as at 31 December 2010, and its financial performance, the changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards and related Yemeni laws and regulations.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We have obtained all the information and explanations which we required for the purpose of our audit. We also confirm that, in our opinion, proper accounting records have been kept by the Bank and the accompanying financial statements are in agreement therewith. We further report that during the course of our examination we have not become aware of any material violations to the provisions of the Banks Law No. 38 of 1998, Commercial Companies Law No. 22 of 1997 and its amendments, the Public Companies, Establishments and Corporations Law No. 35 of 1991 or guidelines of the Central Bank of Yemen that could have had significant adverse effects on the Bank's operations or its financial position for the financial year ended 31 December 2010.

Dr. Bassam Dahman, IMA
Registered Licensed Accountant No. 819

Dahman Awadh Dahman, FCCA
Registered Licensed Accountant No. 384

For **Dahman & Co.**
A member of **RSM International**

Aden, Republic of Yemen,
18 March 2011

Dahman & Co.
member firm of
RSM
International

NATIONAL BANK OF YEMEN

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

ASSETS	Note	*31 December 2010 YR' 000*	*31 December 2009 YR' 000*
Cash on hand and reserve balances with the Central Bank of Yemen	4	**11,449,716**	11,052,309
Due from banks	5	**27,533,176**	28,792,299
Treasury bills, net	6	**57,680,128**	52,587,188
Loans and advances to customers, net of provision	7	**8,273,929**	9,369,273
Available for sale investments, net	8	**301,977**	216,324
Debit balances and other assets	9	**1,498,462**	1,120,587
Property, plant and equipment, net of accumulated depreciation	10	**2,724,718**	2,303,275
TOTAL ASSETS		**109,442,106**	105,441,235
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	11	**291,537**	573,410
Customers' deposits	12	**91,834,327**	89,814,420
Credit balances and other liabilities	13	**3,342,511**	2,203,936
Income tax	14	**418,969**	774,586
Total Liabilities		**95,887,344**	93,366,352
EQUITY			
Declared and paid up share capital	15-a	**10,000,000**	9,000,000
Surplus on revaluation of property reserve	15-c	**639,762**	639,762
Statutory reserve	15-d	**2,168,485**	1,857,104
General reserve	15-e	**683,863**	523,164
Cumulative changes in the fair value reserve	15-f	**62,652**	54,853
Total Equity		**13,554,762**	12,074,883
TOTAL LIABILITIES AND EQUITY		**109,442,106**	105,441,235
CONTRA ACCOUNTS AND OTHER COMMITMENTS, NET	16	**22,895,118**	19,913,976

Independent Auditors' Report attached (page 1).

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

Sami Abdul-Hamid Mackawee	Esam Ahmed Alawi Alsaqaf	Ahmed Obaid Alfadli
First Deputy General Manager	General Manager	Acting Chairman

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2010

	Note	**2010 YR' 000**	2009 YR' 000
OPERATING REVENUE			
Interest on loans and advances and due from banks	17	**1,680,480**	1,405,116
Interest on treasury bills		**9,960,935**	7,316,146
Interest on certificates of deposit with the Central Bank of Yemen		**-**	175,765
Total interest revenue		**11,641,415**	8,897,027
Cost of deposits	18	**(7,501,937)**	(5,027,968)
Net interest revenue		**4,139,478**	3,869,059
Commissions and fee income on banking services	19	**710,184**	809,595
Income on available for sale investments		**23,202**	17,592
(Loss) / Gain on foreign currency transactions	20	**(152,794)**	13,001
Other operating revenue	21	**909,296**	433,263
Net Operating Revenue		**5,629,366**	5,142,510
OPERATING EXPENSES			
Commissions and fee expenses on banking services		**39,268**	59,446
General and administration expenses	22	**1,803,631**	1,595,768
Provisions	23	**1,041,624**	1,189,193
Total Operating Expenses		**2,884,523**	2,844,407
PROFIT FOR THE YEAR BEFORE ZAKAT AND INCOME TAX		**2,744,843**	2,298,103
Zakat	24	**(150,000)**	(85,000)
PROFIT FOR THE YEAR AFTER ZAKAT AND BEFORE INCOME TAX		**2,594,843**	2,213,103
Income tax	14	**(518,969)**	(774,586)
PROFIT FOR THE YEAR		**2,075,874**	1,438,517
OTHER COMPREHENSIVE INCOME			
Net movement in fair value for the year		**7,799**	9,044
Other Comprehensive Income For The Year		**7,799**	9,044
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,083,673**	1,447,561
Basic earnings per share	25	**219 YR**	164 YR

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 2010

	Capital YR'000	*Surplus On Revaluation Of Property Reserve YR'000*	*Statutory Reserve YR'000*	*General Reserve YR'000*	*Cumulative Changes in Fair Value Reserve YR'000*	*Retained Earnings YR'000*	*Total YR'000*
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 share in profit for the year	-	-	-	-	-	(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
Comprehensive income							
Profit for the year	**-**	**-**	**-**	**-**	**-**	**2,075,874**	**2,075,874**
Other comprehensive income							
Net movement in fair value for the year	**-**	**-**	**-**	**-**	**7,799**	**-**	**7,799**
Total comprehensive income	**-**	**-**	**-**	**-**	**7,799**	**2,075,874**	**2,083,673**
Transaction with owners							
Transfer to statutory reserve	**-**	**-**	**311,381**	**-**	**-**	**(311,381)**	**-**
Transfer to general reserve	**-**	**-**	**-**	**311,381**	**-**	**(311,381)**	**-**
Government share in profit for the year	**-**	**-**	**-**	**-**	**-**	**(500,000)**	**(500,000)**
Government's share in profit transferred to capital	**849,318**	**-**	**-**	**-**	**-**	**(849,318)**	**-**
Transfer from general reserve to capital	**150,682**	**-**	**-**	**(150,682)**	**-**	**-**	**-**
Employees' share in profit	**-**	**-**	**-**	**-**	**-**	**(103,794)**	**(103,794)**
Total transaction with owners	**1,000,000**	**-**	**311,381**	**160,699**	**-**	**(2,075,874)**	**(603,794)**
Balance at 31 December 2010	**10,000,000**	**639,762**	**2,168,485**	**683,863**	**62,652**	**-**	**13,554,762**

The Bank's Board of Directors, in its meeting held on 15 April 2007, resolved to increase the share capital of the Bank to YR 10,000,000 thousands. H.E. the Minister of Finance has approved this increase in the share capital. The share 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 share capital reaches YR 10,000,000 thousands.

The Bank's management resolved the transfer of the amount YR 150,682 thousands from general reserve and the amount 849,318 thousand from the Government's share of profit of the year to the share capital. With this the share capital of the bank is 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 2010

CASH FLOWS FROM OPERATING ACTIVITIES	Note	2010 YR 000	2009 YR 000
Profit for the year before the Zakat and income tax		**2,744,843**	2,298,103
Adjustments for:			
Provision for losses on loans and advances and on contra accounts made during the year		**1,001,178**	1,148,394
Provision for losses on loans and advances and contra accounts written back during the year		**(893,179)**	(419,618)
Amount utilized during the year from provision for losses on loans and advances		**(426)**	(5,896)
Revaluation of balances of provision for losses on loans and advances and on contra accounts		**43,751**	40,910
(Loss) from sale of property, plant and equipment		**(-)**	(85)
Income tax paid		**(874,586)**	(824,041)
Zakat paid		**(100,000)**	(85,000)
Depreciation of property, plant and equipment		**98,657**	91,105
Net Operating Profit Before Changes In Banking Assets And Liabilities Related To Operating Activities (1)		**2,020,238**	2,244,042
CHANGES IN BANKING ASSETS			
Reserve balances with the Central Bank of Yemen		**(342,487)**	(808,782)
Treasury bills maturing after three months, net of unamortized discount		**(3,157,718)**	(10,891,945)
Due from banks maturing after three months		**(211,546)**	(1,505,672)
Loans and advances to customers before provision but after suspended interest		**920,798**	(1,722,390)
Debit balances and other assets		**(377,895)**	619,344
Net (increase) in banking assets (2)		**(3,168,848)**	(14,309,445)
CHANGES IN BANKING LIABILITIES			
Due to banks		**(281,873)**	(1,503,217)
Customers' deposits		**2,019,907**	1,942,779
Credit balances and other liabilities		**1,111,797**	(533,431)
Net increase / (decrease) In banking liabilities (3)		**2,849,831**	(93,869)
CASH FLOWS (USED IN) INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(520,100)**	(217,828)
Purchase of available for sale investments		**(77,854)**	(1,454)
Net Cash Flows (Used In) Investing Activities (4)		**(597,954)**	(219,282)
CASH FLOWS (USED IN) FINANCING ACTVITIES			
Government's share paid in the profit for the year		**(500,000)**	(500,000)
Employees' share in the profit for the year		**(103,794)**	(71,925)
NET CASH FLOW (USED IN) FINANCING ACTIVITIES (5)		**(603,794)**	(571,925)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (1+2+3+4+5)		**499,473**	(12,950,479)
Cash and cash equivalents at 1 January		**67,595,005**	80,545,484
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	27	**68,094,478**	67,595,005

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

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 carries out banking retail activity in 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.

The number of employees with the Bank as on 31 December 2010 was 738 (31 December 2009: 797 employees).

2 SIGNIFICANT ACCOUNTING POLICIES

2-a 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 Rials and all values are rounded to the nearest one thousand Yemeni Rial except when otherwise is indicated.

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

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 27 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 payables. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated. Interests 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)

Statement of Compliance

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 2010 and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) of the IASB in force as at 31 December 2010, 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) *New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 and not early adopted.*

The following standards and amendments to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after 1 January 2010 or later periods, but the Bank has not early adopted them. These standards are not currently relevant to the Bank's operation (although they may affect the accounting for future transactions and events.

- *IFRS 5 (amendment), 'Non-Current Assets Held For Sale And Discontinued Operations'*

The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the consolidated financial statements.

The amendment also clarifies that all the assets and liabilities of a subsidiary should be classified as held for sale when the Bank is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Bank will retain a non-controlling interest in the subsidiary after the sale.

- *IAS 1 (amendment), 'Presentation Of Financial Statements'*

The amendments to IAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.

- *IAS 7 (amendment), 'Statement Of Cash Flows'*

The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. The application of the amendments to IAS 7 has resulted in a change in the presentation of cash outflows in respect of development costs that do not meet the criteria in IAS 38 "Intangible Assets for capitalisation as part of an internally generated intangible asset".

2 SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

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

Statement of Compliance *(Continued)*

a) *New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 and not early adopted.(continued)*

- *IFRS 3 (revised), 'Business Combinations'*

As part of Improvements to IFRSs issued in 2010, IFRS 3 (2008) was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition (see above) is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other standards. In addition, as part of Improvements to IFRSs issued in 2010, IFRS 3 (2008) was amended to give more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 Share-based Payment at the acquisition date ('market-based measure').

- *IAS 27 (revised), 'Consolidated And Separate Financial Statements'*

The revised IAS 27 specifies that when control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

- *IAS 28 (revised), 'Investments In Associates' And IAS 31, 'Interest In Joint Ventures'*

As part of Improvements to IFRSs issued in 2010, IAS 28 (2008) has been amended to clarify that the amendments to IAS 28 regarding transactions when the investor loses significant influence over an associate should be applied prospectively.

- *IFRS 1 (amendment), 'Fist-time adoption of International Financial Reporting Standards'*

The amendments provide two exemptions when adopting IFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease.

- *IFRS 2 (Amendment), 'Group Cash-Settled Share-Based Payment Transactions'*

The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

- *IAS 39 (Amendment), 'Financial Instruments: Recognition And Measurement'*

The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.

- *IFRIC 17, 'Distributions Of Non-Cash Assets To Owners'*

The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

- *IFRIC 18, 'Transfers Of Assets From Customers'*

The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with IAS 18 'Revenue'.

- *IFRIC 9, 'Reassessment Of Embedded Derivatives And IAS 39, 'Financial Instruments: Recognition And Measurement'*

This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remains classified as at fair value through profit or loss in its entirety.

- *IFRIC 16, 'Hedges Of A Net Investment In A Foreign Operation'*

This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Bank, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the Bank should clearly document its hedging strategy because of the possibility of different designations at different levels of the group.

2 SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

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

Statement of Compliance *(Continued)*

a) *New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 and not early adopted. (continued)*

- *IAS 38 (amendment), 'Intangible assets', Effective 1 January 2010,*

The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

- *IAS 36 (Amendment), ' Impairment Of Assets'*

The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

b) *New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted:*

For the avoidance of doubt, the following standards, amendments and interpretations, which were issued by IASB before 31 December 2010 and are not yet in effect, have not been adopted early:

- *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.

- *Revised IAS 24 (Revised): 'Related Party Disclosures'*

IAS 24 was issued in November 2009 and it supersedes IAS 24, 'Related party disclosures' issued in 2003. It is mandatory for all periods beginning on or after 1 January 2011. Early application, in whole or in part, is permitted.

The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Bank will apply the revised standard from 1 January 2011. When the revised standard is applied, the Bank will need to disclose any transaction between its subsidiaries and its associates.

The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the Bank because the Bank is not a government-related entity directly. However, disclosures regarding related party transactions and balances in these financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

- *'Classification Of Rights Issues' (Amendment To IAS 32), Issued In October 2009*

The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'.

The application of this standard is not relevant to the Bank.

2 SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

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

Statement of Compliance *(Continued)*

b) *New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted (continued)*

- *IFRIC 19: 'Extinguishing Financial Liabilities With Equity Instruments'*

IFRIC 19 is effective from 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Bank will apply the interpretation from 1 January 2011.

This interpretation is not expected to have any impact on the Bank's financial statements.

- *'Prepayments Of A Minimum Funding Requirement' (Amendments To IFRIC 14)*

The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The Bank will apply these amendments for the financial reporting period commencing on 1 January 2011.

This amendment is not expected to have any impact on the Bank's financial statements.

- *IAS 1 (Amendment), 'Presentation Of Financial Statements'*

The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Bank presents the details in the statement of changes in equity itself.

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 2010.

2-b 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 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2-c Summary of Principal Accounting Policies

The Bank has applied the following accounting policies, consistently, in dealing with significant items of 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 Rials 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 Rials 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 statement of comprehensive income.

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

Revenue Recognition

(i) Interest income is recognized in the statement of comprehensive income 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, cash 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.

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 unamortized discount outstanding at the reporting date.

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:

	2010	2009
• Performing loans including watch loans	1%	2%
• Performing contingencies including watch accounts	1%	1%
• Non-performing loans and contingencies:		
- Substandard debts	15%	15%
- Doubtful debts	45%	45%
- Bad debts	100%	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".

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

Investments

As at the financial statements date, all 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 profit and loss 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 profit 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 investments are recognised in the statement of the comprehensive income. Dividends on available for sale equity instruments are recognised in the statement of comprehensive income in 'dividend income' item 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 are taken to interest income.

Property, Plant and Equipment

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.

Depreciation

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 2010 (2009: 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 statement of comprehensive income.

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" use the value at which these assets were acquired less any decline in their value. Any decline is charged to the statement of comprehensive 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 statement of comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

Contingent Liabilities and Commitments

Contingent liabilities and commitments, in which the Bank is a party, are presented off statement of financial position, 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 statement of financial position 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.

Financial Assets at Fair Value through profit or loss

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 statement of comprehensive income in the period in which they arise. Interest earned or dividends received are included in the interest and dividend income respectively.

Zakat

The Bank pays zakat for the year based on the amount defined in the General Budget Project approved by the Ministry of Finance to the Zakat General Directorate.

Income Tax

Tax liability payable on the Company is calculated according to tax laws, regulation and orders effective in the Republic of Yemen.

Due to the tax accounting nature in the Republic of Yemen, the application of what is stated on deferred tax in the IAS on income taxation, usually does not evolve deferred tax liabilities. In the case of evolved deferred tax assets due to the application of this IAS, these assets are not added unless there are adequate indicators that it will be realized in the near future.

Related Party Transactions

A party is considered related if being able to either control or exercise significant and material influence over the Bank’s financial and operating decision making process. Disclosures are made in the financial statements of transactions carried out with related parties such as Board of Directors members, senior management, their families and companies in which they are major owners as well as major shareholders, other than the Government, owning, directly or indirectly, 5% or more of the voting rights. The pricing policies and terms of these transactions are approved by the Bank’s management.

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 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 statement of comprehensive income 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

Impairment of Assets *(Continued)*

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 statement of comprehensive income 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, 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-a 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-b 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.

Credit Risk

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.

3 FINANCIAL INSTRUMENTS *(CONTINUED)*

3-b Risk Management Of Financial Instruments *(Continued)*

Credit Risk *(Continued)*

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

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 2010 YR'000***	*31 December 2009 YR'000*
Cash on hand and reserve balances with the Central Bank of Yemen (excluding cash on hand)	**10,030,365**	9,719,946
Due from Bank	**27,533,176**	28,792,299
Treasury bills, net	**57,660,128**	52,587,188
Loans and advances to customers, net of provision	**8,273,929**	9,369,273
Available for sale investments, net	**301,977**	216,324
Debit balances and other assets	**1,485,022**	1,112,729
Total assets	**105,284,597**	101,797,759
Contra accounts and other commitments	**22,895,116**	19,913,976
Total credit risk exposure	**128,179,713**	121,711,735

The Bank manages concentration of risk by distributing the portfolio over diversified economic sectors and geographical locations. Note no. 30 shows the distribution of financial instruments over different economic sectors and note no. 31 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 2010				
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	**291,537**	**-**	**-**	**-**	**291,537**
Customers' deposits	**58,432,513**	**9,865,868**	**23,308,730**	**227,216**	**91,834,327**
Credit balances and other liabilities	**2,829,437**	**149,779**	**363,295**	**-**	**3,342,511**
Total liabilities	**61,553,487**	**10,015,647**	**23,672,025**	**227,216**	**95,468,375**

3 FINANCIAL INSTRUMENTS *(CONTINUED)*

3-b Risk Management Of Financial Instruments *(Continued)*

Liquidity Risk *(Continued)*

	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

In addition to the above, note no. 28 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.

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

	As at 31 December 2010					
ASSETS	*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*	*Non Interest Sensitive YR'000*	*Total YR'000*
Cash on hand and reserve balances with the Central Bank of Yemen	**-**	**-**	**-**	**-**	**11,449,716**	**11,449,716**
Due from banks	**18,469,196**	**1,382,530**	**2,469,840**	**-**	**5,211,610**	**27,533,176**
Treasury bills, net	**43,079,285**	**6,588,116**	**7,992,727**	**-**	**-**	**57,660,128**
Loans and advances to customers, net of provision	**2,667,481**	**500,513**	**4,091,731**	**1,014,204**	**-**	**8,273,929**
Available for sale Investments, net	**-**	**-**	**-**	**-**	**301,977**	**301,977**
Debit balances and other assets	**9,103**	**868**	**1,551**	**-**	**1,486,940**	**1,498,462**
Total assets	**64,225,065**	**8,472,027**	**14,555,849**	**1,014,204**	**18,450,243**	**106,717,388**
LIABILITIES						
Due to banks	**-**	**-**	**-**	**-**	**291,537**	**291,537**
Customers' deposits	**34,537,971**	**8,360,911**	**20,269,578**	**-**	**28,665,867**	**91,834,327**
Credit balances and other liabilities	**619,039**	**149,779**	**363,295**	**-**	**2,210,398**	**3,342,511**
Total liabilities	**35,157,010**	**8,510,690**	**20,632,873**	**-**	**31,167,802**	**95,468,375**
Interest rate sensitivity gap	**29,068,055**	**(38,663)**	**(6,077,024)**	**1,014,204**	**(12,717,559)**	**(11,249,013)**
Cumulative interest rate sensitivity gap	**29,068,055**	**29,029,392**	**22,952,368**	**23,966,572**	**11,249,013**	**-**

3 FINANCIAL INSTRUMENTS *(CONTINUED)*

3-b Risk Management Of Financial Instruments *(Continued)*

Interest Rate Risk *(Continued)*

	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
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						
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	266,149	116,319	199,459	-	1,622,010	2,203,937
Total liabilities	27,686,182	12,100,058	20,748,725	-	32,056,802	92,591,767
Interest rate sensitivity gap	36,122,319	(9,701,467)	(3,222,617)	2,052,339	(14,704,381)	(10,546,193)
Cumulative interest rate sensitivity gap	36,122,319	26,420,852	23,198,235	25,250,574	10,546,193	-

In addition to the above, note no. 29 shows the average interest rates on assets and liabilities applied during the year ended 31 December 2010 and the year ended 31 December 2009.

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 2010					
	United States Dollar	*Pound Sterling*	*Euro*	*Saudi Rial*	*Other currencies*	*Total*
	YR'000	*YR'000*	*YR'000*	*YR'000*	*YR'000*	*YR'000*
Assets	**51,472,564**	**1,799,900**	**4,744,011**	**2,856,087**	**692,303**	**61,564,865**
Liabilities	**(51,601,699)**	**(1,795,918)**	**(4,715,414)**	**(2,802,327)**	**(641,475)**	**(61,556,833)**
Net currency position	**(129,135)**	**3,982**	**28,597**	**53,760**	**50,828**	**8,032**

	As at 31 December 2009					
	United States Dollar	*Pound Sterling*	*Euro*	*Saudi Rial*	*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)

3 FINANCIAL INSTRUMENTS *(CONTINUED)*

3-c 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 statement of financial position 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.

The capital adequacy is calculated as follows:

	31 December 2010 YR' million	*31 December 2009 YR' million*
Tier 1 capital		
Capital	**10,000**	9,000
Statutory reserve	**2,168**	1,857
General reserve	**684**	523
Total Tier 1 capital	**12,852**	11,380
Tier 2 capital		
Property revaluation reserve	**640**	640
Fair value reserve	**63**	55
Total Tier 2 capital	**703**	695
Investment in local banks or financial companies	**(66)**	(64)
General provision balance as at year end	**53**	105
Total qualifying capital	**13,542**	12,116
Risk weighted assets:		
On statement of financial position	**14,664**	13,862
Off statement of financial position	**4,605**	4,347
Total risk - weighted assets	**19,269**	18,209
Capital adequacy ratios		
Tier 1 capital	**67%**	62%
Total capital	**70%**	67%

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

	31 December 2010 YR'000	*31 December 2009 YR'000*
Cash on hand:		
In local currency	**615,310**	571,925
In foreign currencies	**804,041**	760,438
Cheques purchased, net	**556**	32,624
Total cash on hand	**1,419,907**	1,364,987
Reserve balances with the Central Bank of Yemen:		
In local currency	**3,787,490**	3,694,819
In foreign currencies	**6,242,319**	5,992,503
Total reserve balances with the Central Bank of Yemen	**10,029,809**	9,687,322
Total cash on hand and reserve balances with the Central Bank of Yemen	**11,449,716**	11,052,309

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.

5 DUE FROM BANKS

	31 December 2010 YR'000	*31 December 2009 YR'000*
Due from the Central Bank of Yemen and other local banks		
Current accounts with the Central Bank of Yemen:		
In local currency	**2,456,092**	3,080,770
In foreign currencies	**212,588**	354,991
Total due from the Central Bank of Yemen	**2,668,680**	3,435,761
Current accounts with other local banks	**936**	674
Islamic investment deposits with two local banks	**392,926**	430,121
Total due from the Central Bank of Yemen and other local banks	**3,062,542**	3,866,556
Due from foreign banks and other financial institutions		
Current and demand account balances	**6,051,420**	5,526,861
Provision for outstanding reconciling items	**(20,149)**	(21,118)
Time deposits	**18,439,363**	19,420,000
Total due from foreign banks and other financial institutions	**24,470,634**	24,925,743
Total due from banks	**27,533,176**	28,792,299

Current accounts and time deposits with foreign banks carry variable interest rates (0.04 % to 4.00%), while current accounts with the Central Bank of Yemen and local banks do not carry any interest.

6 TREASURY BILLS, NET

	31 December 2010 YR'000	*31 December 2009 YR'000*
Treasury bills due within:		
42 days	**-**	1,258,475
49 days	**721,597**	-
90 days	**42,815,039**	31,890,049
182 days	**7,701,100**	8,776,220
364 days	**8,580,360**	11,986,540
Total nominal value of treasury bills	**59,818,096**	53,911,284
Unamortized discount due within:		
42 days	**(-)**	(10,558)
49 days	**(10,141)**	(-)
90 days	**(1,160,967)**	(494,416)
182 days	**(399,228)**	(255,707)
364 days	**(587,632)**	(563,415)
Net unamortized discount	**(2,157,968)**	(1,324,096)
Net book value of treasury bills	**57,660,128**	52,587,188

6 TREASURY BILLS, NET *(CONTINUED)*

The treasury bills and repurchased treasury bills carry interest rates ranging from 12.97% to 22.985% (31 December 2009: 12.54% to 15.41%). 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 LOANS AND ADVANCES TO CUSTOMERS, NET OF PROVISION

	31 December 2010 YR'000	*31 December 2009 YR'000*
Loans and advances to customers in the private sector:		
Overdraft facilities	**6,169,882**	6,919,650
Short term loans	**5,960,330**	5,806,624
Total loans and advances to customers in the private sector	**12,130,212**	12,726,274
Provision for losses on non performing loans and advances (note 7-a)	**(3,126,033)**	(2,951,487)
Suspended interest (note 7-b)	**(730,250)**	(405,514)
Total provision for losses on non performing loans and advances and suspended interest	**(3,856,283)**	(3,357,001)
Net loans and advances to customers	**8,273,929**	9,369,273

Gross non-performing loans and advances as at 31 December 2010 amounted to YR 4,414,718 thousand (31 December 2009: YR 3,442,171 thousand). The breakup of the above amount is as follows:

	31 December 2010 YR'000	*31 December 2009 YR'000*
Substandard debts	**410,801**	204,263
Doubtful debts	**491,872**	71,560
Bad debts	**3,512,045**	3,166,348
Total gross non performing loans and advances	**4,414,718**	3,442,171

7-a Movement of Provision For Losses On Non-Performing Loans And Advances

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

	---------- 31 December 2010 ----------			---------- 31 December 2009 ----------		
	Specific YR'000	*General YR'000*	*Total YR'000*	*Specific YR'000*	*General YR'000*	*Total YR'000*
Balance at 1 January	**2,846,709**	**104,778**	**2,951,487**	2,101,653	87,415	2,189,068
Revaluation of opening balances in foreign currencies	**39,908**	**(67)**	**39,841**	36,210	819	37,029
Amount utilized during the year	**(426)**	**-**	**(426)**	(5,896)	-	(5,896)
Adjusted opening balances	**2,886,191**	**104,711**	**2,990,902**	2,131,967	88,234	2,220,201
Amounts recovered of loans previously written off (note 21)	**(744,584)**	**(84,087)**	**(828,671)**	(317,207)	(13,103)	(330,310)
Provision for the year (note 23)	**931,178**	**32,624**	**963,802**	1,031,949	29,647	1,061,596
Charged to the statement of comprehensive income	**186,594**	**(51,463)**	**135,131**	714,742	16,544	731,286
Balance at end of year	**3,072,785**	**53,248**	**3,126,033**	2,846,709	104,778	2,951,487

Management has decided to provide for the general provision for performing loans and contingencies including watch loans at the rate of 1% (2009: 2%).

The Bank has, during the year, written-off fully provided loans and advances amounting to YR 426 thousands (2009: YR 5,896 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 statement of comprehensive income.

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

7-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.

	31 December 2010 YR'000	*31 December 2009 YR'000*
Balance at 1 January	**405,514**	169,008
Exchange differences for the year	**69,688**	2,457
Amounts written-off during the year	**(3,573)**	(-)
Recovered during the year	**(42,965)**	(1,028)
Suspended during the year	**301,586**	235,077
Balance at 31 December	**730,250**	405,514

8 AVAILABLE FOR SALE INVESTMENTS, NET

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

	Ownership Percentage %	*No. of Shares*	*31 December 2010 YR '000*	*31 December 2009 YR'000*
Unquoted investments in shares of UBAF Group:				
UBAF - Curacao - A Shares of USD 50 / share	**0.788**	**29,944**	**320,101**	310,385
UBAF - Curacao - B Shares of USD 50 / share	**0.782**	**4,693**	**50,168**	48,645
UBAF - Curacao - C Shares of USD 50 / share	**1.221**	**10,565**	**112,940**	109,511
Total investment in shares in UBAF Group		**45,202**	**483,209**	468,541
Other unquoted investments:				
ALUBAF Arab International Bank (BSC)–Bahrain (note 8-a)	**0.344**	**6,880**	**154,985**	73,127
Arab Financial Services Company-Bahrain of USD 7.5 / share (note 8-b)	**0.167**	**10,000**	**22,364**	20,586
Yemen Financial Services Company-Yemen of USD 100 / share	**10.000**	**3,107**	**66,428**	64,411
Yemen Mobile Company for Telecommunication-Yemen of YR 500 / share (note 8-c)	**0.139**	**120,000**	**61,200**	61,200
Total other unquoted investments			**304,977**	219,324
Total available for sale investments			**788,186**	687,865
Provision for impairment (note 8-e)			**(486,209)**	(471,541)
Net book value of investments available for sale			**301,977**	216,324

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

he bank subscribed additional shares by of 6,880 to equal o its share in the share capital increase its share in Bank Al UBAF Arab International Bank (BSC) - Bahrain. The value per share is USD 50 with total value of US$ 344,000.

The calculation of fair value of the 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 2009) which amounted to USD 55.35 per share (2008: USD 51.26 per share).

8-b Arab Financial Services Company - Bahrain

The calculation of 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 2009) which amounted to USD 10.46 per share (2008: USD 9.93 per share).

8-c 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.

9 DEBIT BALANCES AND OTHER ASSETS

	31 December 2010 YR'000	*31 December 2009 YR'000*
Prepaid expenses and other debit balances	**13,440**	7,838
Interest receivable	**11,575**	24,937
Capital costs of new branches under construction	**231,327**	147,635
Real estate properties acquired from customers, net of provision (note 9-a)	**154,657**	153,936
Al Amal Bank for Microfinance –Yemen (note 9-b)	**10,000**	10,000
Al Tadhamon Microfinance – Yemen (note 9-b)	**1,000**	1,000
Customer acceptances (note 9-c)	**1,031,830**	732,395
Sundry debit balances, net of provision	**44,633**	42,826
Total debit balances and other assets	**1,498,462**	1,120,567

9-a Real Estate Properties Acquired From Customers, Net Of Provision

The balance of real estate properties acquired from customers is net of a provision of YR 9,219 thousand (2009: YR 9,219 thousand). The valuation of these properties is in accordance with the instructions of the Central Bank of Yemen.

9-b Al Amal Bank for Microfinance –Yemen and Al Tadhamon Microfinance – 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.

9-c Customer Acceptances

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".

10 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 1 January 2010	**2,069,644**	**92,523**	**370,460**	**121,516**	**230,651**	**2,884,794**
Additions during the year	**264,041**	**9,662**	**24,596**	**-**	**221,801**	**520,100**
At 31 December 2010	**2,333,685**	**102,185**	**395,056**	**121,516**	**452,452**	**3,404,894**
At 1 January 2009	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
Disposals 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 1 January 2010	**92,893**	**41,451**	**191,506**	**90,435**	**165,234**	**581,519**
Charge for the year	**19,581**	**8,504**	**30,292**	**15,873**	**24,407**	**98,657**
At 31 December 2010	**112,474**	**49,955**	**221,798**	**106,308**	**189,641**	**680,176**
At 1 January 2009	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 2010	**2,221,211**	**52,230**	**173,258**	**15,208**	**262,811**	**2,724,718**
At 31 December 2009	1,976,751	51,072	178,954	31,081	65,417	2,303,275

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 2010

11 DUE TO BANKS

	31 December 2010 YR'000	*31 December 2009 YR'000*
Current and under demand accounts:		
Local banks	**-**	-
Foreign banks	**291,537**	573,410
Total due to banks	**291,537**	573,410

12 CUSTOMERS' DEPOSITS

	31 December 2010 YR'000	*31 December 2009 YR'000*
Current accounts	**20,856,321**	18,094,564
Savings accounts	**29,155,629**	27,826,691
Term deposits	**38,117,416**	35,487,424
Other deposit margins	**474,147**	1,780,359
Cash deposits for documentary letters of credit, guarantees and others	**3,230,814**	6,625,382
Total customers' deposits	**91,834,327**	89,814,420

13 CREDIT BALANCES AND OTHER LIABILITIES

	31 December 2010 YR'000	*31 December 2009 YR'000*
Accrued interest payable	**1,132,113**	581,927
Unclaimed balances (note 13-a)	**205,200**	201,142
Provision for employees' leave pay	**62,833**	61,970
Provision for off-statement of financial position items (note 13-b)	**92,634**	115,856
Employees' share in profit	**106,785**	77,781
Other provisions	**-**	18,898
Provision for contingent liabilities (note 33)	**60,461**	59,392
Customer acceptances	**1,031,830**	732,395
Accrued Zakat (note 24)	**50,000**	-
Sundry credit balances	**600,655**	354,575
Total credit balances and other liabilities	**3,342,511**	2,203,936

13-a Unclaimed Balances

This amount represents 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.

13-b Provision for Off-statement of financial position Items

	31 December 2010 YR'000	*31 December 2009 YR'000*
Balance at beginning of the year	**115,856**	114,485
Revaluation of opening balance in foreign currencies	**3,910**	3,881
Provision charged during the year (note 23)	**37,376**	86,798
Provision written back during the year (note 21)	**(64,508)**	(89,308)
Balance at end of the year	**92,634**	115,856

14 INCOME TAX

	31 December 2010 YR'000	*31 December 2009 YR'000*
Balance at 1 January	**774,586**	824,041
Charged for the year in the statement of comprehensive income (note 14-a)	**518,969**	774,586
Paid during the year	**(874,586)**	(824,041)
Balance at 31 December	**418,969**	774,586

14 INCOME TAX *(CONTINUED)*

14-a Charge For The Year

The income tax charge for the year has been calculated on the basis of 20% (2009: 35%) of profit for the year.

14-b Prior Year Tax Assessments

The Bank received on 31 May 2010 the final tax clearance for the income tax liability for the financial year ended 31 December 2009.

14-c Income Tax on Provision for Losses of 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 2-a in the Income Tax Law No. 17 for 2010, any provisions 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.

14-d Income Tax on Suspended Interests

Suspended interests are considered part of the provision for doubtful debts in accordance to In accordance with article 85 of Banks Law No. 38 of 1998 and Article 14-a of the Income Tax Law No. 17 for 2010 which states that provisions for losses on loans and advances provided by banks in accordance to the guidelines of the Central Bank of Yemen is not subject to provisions of any income tax when calculating the taxable income.

15 EQUITY

15-a Share Capital

Share Capital	***Number of shares*** ***1000 shares***	***Value of share*** ***YR***	***31 December 2010*** ***YR'000***	*31 December 2009* *YR'000*
Authorized	**10,000**	**1,000**	**10,000,000**	10,000,000
Declared and paid up	**10,000**	**1,000**	**10,000,000**	9,000,000

15-b 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.

15-c 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.

15-d Statutory Reserve

In accordance with article 12-1 of the Banks Law no. 38 of 1998, 15% of the net profit for the year is transferred to the statutory reserve until the balance of this reserve reaches twice the capital. The Bank cannot use this reserve without the prior approval of the Central Bank of Yemen.

15-e General Reserve

The balance of this reserve can be used for the purposes approved by the Bank.

15-f 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 statement of comprehensive income.

16 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.

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

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.

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 2010 ----------------		
	Gross commitments YR'000	*Covered by margin YR'000*	*Net commitments YR'000*
Documentary letters of credit	**9,872,458**	**1,651,818**	**8,220,640**
Letters of guarantee – customers	**5,650,677**	**1,559,661**	**4,091,016**
Letters of guarantee - correspondent banks	**10,467,721**	**-**	**10,467,721**
Credit cards	**69,485**	**9,461**	**60,024**
Cheques purchased	**65,589**	**9,874**	**55,715**
Total contra accounts and other commitments	**26,125,930**	**3,230,814**	**22,895,116**

	-------------- 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

17 INTEREST ON LOANS AND ADVANCES AND DUE FROM BANKS

	31December 2010 YR'000	*31December 2009 YR'000*
Interest on loans and advances to clients and banks		
Loans and advances to customers	**1,510,952**	1,230,593
Other facilities	**116**	1,414
Murabaha operations	**1,289**	73
Total interest on loans and advances to clients and banks	**1,512,357**	1,232,080
Interest on accounts with foreign banks:		
Current accounts	**4,225**	3,021
Call accounts	**-**	341
Deposits	**163,898**	169,674
Interest on accounts with foreign banks:	**168,123**	173,036
Interest on accounts with local banks:		
Reserves balances with the Central Bank of Yemen	**-**	-
Total interest on accounts with banks	**168,123**	173,036
Total interest on loans and advances and due from banks	**1,680,480**	1,405,116

18 COST OF DEPOSITS

	2010 YR'000	*2009 YR'000*
Interest on current and saving accounts	**2,666,971**	1,583,204
Interest on time deposits	**4,834,966**	3,444,764
Total cost of deposits	**7,501,937**	5,027,968

19 COMMISSIONS AND FEE INCOME ON BANKING SERVICES

	2010	2009
Commissions on:	***YR'000***	*YR'000*
Documentary letters of credits	**112,198**	172,045
Letters of guarantee	**253,407**	202,674
Transfer of funds	**28,655**	30,265
Acceptances	**13,199**	10,358
Cheques	**246,356**	334,666
Fees on:		
Banking services	**10,063**	10,331
Other services	**46,306**	49,256
Total commissions and fee income on banking services	**710,184**	809,595

20 (LOSS) / GAIN ON FOREIGN CURRENCY TRANSACTIONS

	2010	*2009*
	YR'000	*YR'000*
Revaluation differences on foreign currency transactions	**(245,176)**	(54,326)
Gain on foreign exchange trading transactions	**92,382**	67,327
Total (loss) / gain on foreign currency transactions	**(152,794)**	13,001

21 OTHER OPERATING INCOME

	2010	*2009*
	YR'000	*YR'000*
Provision for losses on loans no longer required (note 7-a)	**828,671**	330,310
Provision for off-statement of financial position items no longer required (note 13-b)	**64,508**	89,308
Provision for outstanding reconciling item no longer required (BCCI- under liquidation)	**1,180**	-
Sundry income	**14,937**	13,645
Total other operating income	**909,296**	433,263

22 GENERAL AND ADMINISTRATION EXPENSES

	2010	*2009*
	YR'000	*YR'000*
Salaries, wages and related expenses	**1,126,912**	1,026,144
Depreciation of property, plants and equipment (note 12)	**98,657**	91,105
Rent	**35,318**	35,720
Electricity and water	**62,325**	53,012
Repairs and maintenance	**33,733**	31,092
Telephone, telex and postage	**22,379**	23,650
Transportation and allowances	**39,038**	31,353
Promotions and publications	**30,050**	47,370
Computer maintenance	**1,412**	534
Training	**42,405**	36,174
Taxes and government fees	**104,202**	40,715
Donations	**17,524**	13,056
Stationery and printing supplies	**29,923**	26,845
Consultancy fees for programme for development and improvement of the Bank	**30,841**	55,848
Other general and administration expenses	**128,912**	83,150
Total general and administration expenses	**1,803,631**	1,595,768

23 PROVISIONS

	2010	*2009*
	YR'000	*YR'000*
Provision for losses on loans and advances (note 7-a)	**963,802**	1,061,596
Provision for off-statement of financial position items (note 13-b)	**37,376**	86,798
Other provisions	**40,446**	40,799
Total provisions	**1,041,624**	1,189,193

24 ZAKAT

	2010	*2009*
	YR'000	*YR'000*
Balance at 1 January	**-**	-
Charged for the year in the statement of comprehensive income (note 24-a)	**150,000**	85,000
Paid during the year	**(100,000)**	(85,000)
Balance at 31 December	**50,000**	-

25 BASIC EARNINGS PER SHARE

		2010	*2009*
Profit for the year	*YR'000*	**2,075,874**	1,438,517
Weighted average number of shares	Share	**9,500**	8,750
Basic earnings per share	YR	**219**	164

26 RELATED PARTY TRANSACTIONS

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

	31December 2010 YR'000	*31December 2009 YR'000*
Board members and parties related to them:		
Loans and advances, gross	**27,121**	16,300
Customers' deposits	**11,525**	11,528

	2010 YR'000	*2009 YR'000*
Interest income for the year	**1,437**	1,165
Interest expense for the year	**848**	375

27 CASH AND CASH EQUIVALENTS

	31December 2010 YR'000	*31December 2009 YR'000*
Cash on hand and reserve balances with the central Bank of Yemen (note 4)	**11,449,716**	11,052,309
Due from Banks (note 5)	**27,533,176**	28,792,299
Treasury bills with the Central Bank of Yemen (note 6)	**57,660,128**	52,587,188
Reserves balances with Central Bank of Yemen (note 4)	**(10,029,809)**	(9,687,322)
Treasury bills maturing after three months, net of unamortized discount (note 28)	**(14,580,843)**	(11,423,125)
Due from banks maturing after three months (note 28)	**(3,937,890)**	(3,726,344)
Total cash and cash equivalents	**68,094,478**	67,595,005

28 MATURITIES OF ASSETS AND LIABILITIES

As at 31 December 2010

ASSETS	*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*
Cash on hand and reserve balances with the Central Bank of Yemen	**11,449,716**	**-**	**-**	**-**	**11,449,716**
Due from banks	**23,595,286**	**1,382,530**	**2,469,840**	**85,520**	**27,533,176**
Treasury bills, net	**43,079,285**	**6,588,116**	**7,992,727**	**-**	**57,660,128**
Loans and advances to customers, net of provision	**2,667,481**	**500,513**	**4,091,731**	**1,014,204**	**8,273,929**
Available for sale Investments, net	**-**	**-**	**-**	**301,977**	**301,977**
Total assets	**80,791,768**	**8,471,159**	**14,554,298**	**1,401,701**	**105,218,926**
LIABILITIES					
Due to banks	**291,537**	**-**	**-**	**-**	**291,537**
Customers' deposits	**58,432,513**	**9,865,868**	**23,308,730**	**227,216**	**91,834,327**
Total liabilities	**58,724,050**	**9,865,868**	**23,308,730**	**227,216**	**92,125,864**
Net Gap	**22,067,718**	**(1,394,709)**	**(8,754,432)**	**1,174,485**	**13,093,062**

As at 31 December 2009

ASSETS	*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*
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
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

29 AVERAGE INTEREST RATES ON ASSETS AND LIABILITIES

	As at 31 December 2010				
	Yemeni Rial	*US Dollar*	*Saudi Rial*	*Sterling Pound*	*Euro*
ASSETS	*%*	*%*	*%*	*%*	*%*
Reserve balances with the Central Bank of Yemen	-	-	-	-	-
Due from banks:					
Current accounts	-	-	-	-	-
Time deposits	-	**1.76**	**0.32**	**0.79**	**0.37**
Treasury bills, net	**22.98**	-	-	-	-
Loans and advances to customers, net of provision	**23.00**	**7.75**	-	-	-
LIABILITIES					
Customers' deposits	**18.00**	**0.25**	**0.25**	**0.25**	**0.25**

	As at 31 December 2009				
	Yemeni Rial	*US Dollar*	*Saudi Rial*	*Sterling Pound*	*Euro*
ASSETS	*%*	*%*	*%*	*%*	*%*
Reserve balances with the Central Bank of Yemen	-	-	-	-	-
Due from banks:					
Current accounts	-	-	-	-	-
Time deposits	-	1.48	0.58	0.73	0.71
Treasury bills, net	12.97	-	-	-	-
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

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

	As at 31 December 2010						
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	**-**	**-**	**-**	**-**	**11,449,716**	**-**	**11,449,716**
Due from banks	**-**	**-**	**-**	**-**	**27,533,176**	**-**	**27,533,176**
Treasury bills, net	**-**	**-**	**-**	**-**	**57,660,128**	**-**	**57,660,128**
Loans and advances to customers, net of provision	**757,167**	**-**	**5,328,303**	**13,229**	**6,599**	**2,168,631**	**8,273,929**
Available for sale Investments, net	**-**	**-**	**-**	**-**	**301,977**	**-**	**301,977**
Total assets	**757,167**	**-**	**5,328,303**	**13,229**	**96,951,596**	**2,168,631**	**105,218,926**
LIABILITIES							
Due to banks					**291,537**		**291,537**
Customers' deposits	**1,624,224**	**171,774**	**13,985,941**	**2,496,261**	**364,694**	**73,191,433**	**91,834,327**
Total liabilities	**1,624,224**	**171,774**	**13,985,941**	**2,496,261**	**656,231**	**73,191,433**	**92,125,864**
Contra accounts and other commitments	**3,025,341**	**5,238**	**15,977,325**	**172,401**	**2,196,126**	**4,749,499**	**26,125,930**

	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
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

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

	As at 31 December 2010					
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	**11,449,716**	**-**	**-**	**-**	**-**	**11,449,716**
Due from banks	**3,042,393**	**3,597,300**	**10,908,088**	**9,882,482**	**102,913**	**27,533,176**
Treasury bills, net	**57,660,128**	**-**	**-**	**-**	**-**	**57,660,128**
Loans and advances to customers, net of provision	**8,273,929**	**-**	**-**	**-**	**-**	**8,273,929**
Available for sale Investments, net	**124,628**	**-**	**-**	**177,349**	**-**	**301,977**
Total assets	**80,550,794**	**3,597,300**	**10,908,088**	**10,059,831**	**102,913**	**105,218,926**
LIABILITIES						
Due to banks	**-**	**-**	**-**	**291,537**	**-**	**291,537**
Customers' deposits	**91,834,327**	**-**	**-**	**-**	**-**	**91,834,327**
Total liabilities	**91,834,327**	**-**	**-**	**291,537**	**-**	**92,125,864**

	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	8,558,064	12,776,677	108,728	28,792,299
Treasury bills, net	52,587,188	-	-	-	-	52,587,188
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	8,558,064	12,870,390	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

32 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.

33 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 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.

34 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 2010------		------31 December 2009------	
	%	*YR'000*	*%*	*YR'000*
United States Dollar	**(0.95)**	**(129,135)**	(15.76)	(1,902,691)
Pound Sterling	**0.03**	**3,982**	(0.01)	(1,335)
Euro	**0.21**	**28,597**	0.54	65,080
Saudi Rial	**0.40**	**53,760**	1.66	200,888
Swiss Franc	**0.20**	**26,986**	0.11	13,083
Japan Yen	**0.11**	**14,560**	0.10	12,455
United Arab Emirates Dirham	**0.07**	**9,263**	8.54	1,030,604
Other	**0.00**	**19**	-	18
Aggregate foreign currency positions	**0.07**	**8,032**	(4.82)	581,898

The US Dollar exchange rate as at 31 December 2010 was 213.80 YR/USD (31 December 2009: 207.31 YR/USD).

35 CAPITAL COMMITMENTS

Capital commitments at 31 December 2010 amounted nil (31 December 2009: YR 446 million).

36 PROGRAMME FOR THE DEVELOPMENT AND IMPROVEMENT 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 Bank is in the process of continuing part two of the programme involved with implementation of structuring and technology part. The Bank is financing the cost of both parts of this programme from its own financial resources.

37 COMPARATIVE FIGURES

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

38 SUBSEQUENT EVENTS

The management of the Bank was changed by the appointment of Mr. Ahmad Obaid AlFadly as active chairman with respect to the Minister of Finance resolution no. 120 for 2011 issued on 22 February 2011 and the appointment of Mr. Esam Ahmad Alawi AlSaqaf as general manager of the Bank with respect to the Minister of Finance resolution no. 121 for 2011 issued on 22 February 2011.

39 AUTHORIZATION OF THE FINANCIAL STATEMENT

The Board of Directors of the Bank in its meeting held on 10 May 2011 approved these financial statements and to present it to H.E. the Minister of Finance as the representative of the Government the full owner of the equity.